PANAMA CASE STUDY - PART 1

Elite Power Under Extreme External Constraint (1501-2025)

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PART 1: SPANISH COLONIAL STRATEGIC OUTPOST (1501-1821)

"The Crossroads of Empire: How Geography Created a Nation of Intermediaries"

On September 25, 1513, Vasco Núñez de Balboa stood on a mountain peak in what is now Panama and became the first European to see the Pacific Ocean from the Americas. Wading into the surf, he claimed "all these seas and lands" for Spain. Within six years, the Spanish had founded Panama City (1519) on the Pacific coast and established the Camino Real—the "Royal Road"—a mule trail crossing the isthmus connecting the Caribbean to the Pacific. For the next 300 years, essentially all the silver and gold extracted from Peru, Bolivia, and Chile—the wealth that financed the Spanish Empire—would be transported across this 50-mile strip of jungle. Panama's fate was sealed: it would be the crossroads of empire, its elite would prosper not by producing wealth but by managing its flow, and its strategic location would make it perpetually vulnerable to whoever controlled the seas.

Unlike Uruguay, where elite power emerged from land ownership (estancias producing cattle), Panama's elite formed around service and intermediation—managing the transit trade, collecting fees, providing supplies to treasure fleets, and skimming profits from the greatest wealth transfer in early modern history. This fundamental difference—production versus intermediation—would shape everything that followed. You cannot "expropriate the means of production" when production is moving gold from one ship to another. Panama's elite would learn to prosper by serving external powers (Spain, then Colombia, then the United States, now balancing US and China), a pattern that persists to 2025.

Part 1 documents how Panama's geographic position as the narrowest point between two oceans determined its history; how the transit economy created an elite dependent on external empire; how Panama's wealth attracted pirates, making it the most attacked Spanish possession in the Americas; and how by 1821, Panama was an impoverished backwater—yet everyone recognized its future strategic value if canal technology ever advanced.

I. GEOGRAPHIC DETERMINISM: THE NARROWEST POINT (PRE-1501)

The Isthmus That Would Shape Five Centuries

Geography as destiny:

- Panama: Isthmus connecting North America and South America
- **Length**: ~400 miles (Costa Rica border to Colombia border)
- **Width**: 30-120 miles (varies)
- **Narrowest point**: ~50 miles (near Panama City-Colón route)
- **Terrain**: Mountains (up to 11,400 feet), rivers, dense tropical rainforest, swamps

Why this mattered:

- **Only land route**: Between Atlantic (Caribbean Sea) and Pacific Ocean for 1,500+ miles
- Alternative: Sail around Cape Horn (southern tip of South America)—dangerous, took months
- **Strategic value**: Obvious to anyone looking at a map (shortest route between two great oceans)

Climate and disease:

- **Tropical**: Hot (80-90°F year-round), humid (70-90%)
- **Rainfall**: 100-200 inches annually (one of wettest regions on Earth)
- **Diseases**: Yellow fever, malaria, typhoid, dysentery (mosquitoes thrived)
- **Result**: Europeans died at catastrophic rates (this would constrain colonization)

Pre-Columbian Peoples

Who lived there (circa 1501):

1. Guna (Cuna) people:

- Location: Caribbean coast, San Blas Islands
- Lifestyle: Fishing, small-scale agriculture, trade
- Population: ~50,000-100,000 (estimates vary)

2. Ngäbe-Buglé (Guaymí):

- Location: Western highlands
- Lifestyle: Agriculture (maize, yuca), hunting
- Population: ~100,000-150,000

3. Emberá-Wounaan (Chocó):

- Location: Darién region (eastern Panama, mostly jungle)
- Lifestyle: Riverine, fishing, hunting, small farms
- Population: ~20,000-30,000

4. Others: Multiple smaller groups (Teribe, Bokota, Bribri)

Total Indigenous population (1500): ~250,000-400,000 (estimates uncertain)

Trade routes:

- Indigenous peoples: Had trade networks crossing isthmus
- **Gold**: Mined/panned by Indigenous peoples in rivers (small amounts)
- Exchange: Between Caribbean and Pacific peoples (fish, shells, gold, crops)
- **Pattern**: Isthmus already functioned as trade corridor pre-conquest

Political organization:

- **No empire**: Unlike Mexico (Aztec), Peru (Inca), Panama had no centralized state
- Autonomous: Villages, chiefdoms (caciques led communities)
- **Vulnerability**: Fragmentation made them easy to conquer (couldn't unite against Spanish)

II. SPANISH ARRIVAL AND RECONNAISSANCE (1501-1519)

First Contact and "Discovery"

Rodrigo de Bastidas (1501):

- Spanish explorer: First European to Panama's Caribbean coast
- Sailed: From Venezuela west along coast
- Encountered: Indigenous peoples (Guna)
- **Took**: Gold (traded, some stolen)
- Reported: To Spain "gold in rivers, friendly peoples"

Christopher Columbus (1502, Fourth Voyage):

- Sailed: Along Panama's Caribbean coast (October 1502-May 1503)
- Named: "Veragua" region (western Panama)
- Attempted: Settlement at Santa María la Antigua del Darién (1510—Spain's first permanent mainland settlement)
- **Reported**: Gold, potential for conquest

Vasco Núñez de Balboa (1513):

- Background: Spanish conquistador, stowaway on expedition to Darién
- Became: Leader of Spanish settlers in Darién (modern eastern Panama)
- **September 25, 1513**: Led expedition across isthmus
    - 190 Spaniards + ~1,000 Indigenous porters

    - Crossed: Mountains, rivers, jungle (25 days)
    - **First European to see Pacific from Americas** (climbed peak, saw "South Sea")
- September 29, 1513: Reached Pacific coast, waded in, claimed for Spain

Significance of Balboa's crossing:

- **Proved**: Isthmus was crossable (50-60 miles)
- **Revealed**: This was THE route between oceans
- **Spanish Crown realized**: Control Panama = control shortest route = dominate Pacific trade

Why Spain Prioritized Panama

Strategic calculation (1513-1519):

- Peru: Rumors of gold (Francisco Pizarro would conquer Inca 1532-1533)
- Pacific: Spain needed access to explore, conquer Pacific coast
- **Problem**: Ships couldn't sail around South America easily (Cape Horn discovered later 1616)
- **Solution**: Cross Panama isthmus overland, build ships on Pacific side

1519: Foundation of Panama City:

- Founded: August 15, 1519 by **Pedro Arias Dávila** (Pedrarias the Cruel)
- Location: Pacific coast (near modern Panama City)
- Function: **Base for Pacific conquests** (Pizarro launched Peru conquest from here 1524-1532)
- Population: Initially ~100-200 Spaniards, ~500-1,000 Indigenous slaves/servants

Nombre de Dios (1510, refounded 1519):

- Caribbean port: Where ships from Spain arrived
- Function: Atlantic terminus of trans-isthmian route
- **Later replaced**: By Portobelo (1597, better harbor)

The route established:

- **Atlantic → Pacific**: Nombre de Dios → Panama City (50-60 miles)
- **Method**: Mule trains (later built Camino Real road)
- **Time**: 4-7 days (depending on weather, loads)

III. THE CAMINO REAL AND GOLD ROAD ERA (1519-1739)

The Treasure Route: Spine of Spanish Empire

Pizarro conquers Peru (1532-1533):

- Inca Empire: Richest in Americas (silver mines at Potosí, Bolivia; gold throughout Peru)
- Spanish: Looted ~180 tons of gold, 16,000+ tons of silver (1533-1560s)
- **Transport problem**: How to get treasure to Spain?

The system (established 1540s-1550s):

- **Step 1**: Mine silver/gold in Peru, Bolivia, Chile
- **Step 2**: Transport to Lima (Pacific coast of Peru)
- **Step 3**: Ship to Panama City (Pacific side)
- **Step 4**: **Cross Panama on Camino Real** (mule trains)
- **Step 5**: Load onto ships at Portobelo/Nombre de Dios (Caribbean)
- **Step 6**: Treasure fleet sails to Havana (Cuba), then Spain

Camino Real ("Royal Road"):

- Built: 1519-1540s
- Route: Panama City (Pacific) → Nombre de Dios/Portobelo (Caribbean)
- Length: 47-60 miles (depending on exact route)
- Construction: Indigenous forced labor, many died (disease, overwork)
- Surface: Stone paved in some sections, mud/dirt elsewhere
- Maintenance: Constant (jungle overgrew, rains washed out)

Volume of treasure:

- Peak period: 1570s-1630s
- **Quantity**: 150-200 tons of silver annually (1570s-1630s)
- Value: ~25-30 million pesos annually (astronomical sum)
- Frequency: Twice yearly (Portobelo fairs)

Portobelo Fairs: Elite Wealth Emerges

System:

- Treasure fleet: Arrived Portobelo once or twice yearly (from Spain)
- Brought: European manufactured goods (textiles, iron, wine, tools)
- **Fair**: Lasted 30-40 days (trading frenzy)
- Exchanged: European goods for silver/gold from Peru

Portobelo during fair:

- Population: Normal 200-300 → Fair 5,000-10,000 (temporary)
- Activity: Frenetic (trading, loading/unloading ships, mule trains)

- Wealth: Massive (millions of pesos changed hands)
- Disease: Yellow fever outbreaks killed hundreds (hot, humid, crowded)

How Panamanian elite emerged:

1. Spanish officials:

- Governors, customs officials, tax collectors
- Skimmed: Bribes, embezzlement (officially Crown took 20% tax "quinto real")
- Accumulated: Estates near Panama City, investments

2. Merchants:

- Spanish merchants: Settled in Panama City, intermediated trade
- Bought: European goods in Portobelo, sold to Peru-bound traders
- Provided: Credit, insurance, warehousing
- Profits: 30-100% markups

3. Landowners:

- Owned: Estancias near trade route (supplied food—cattle, pigs, chickens—to travelers, fleets)
- Limited: Panama had little arable land (jungle, mountains), so land-based wealth smaller than in Uruguay or Mexico

4. Muleteers:

- Transported: Goods across isthmus
- Owned: Mule trains (50-200 mules per owner)
- Charged: High fees (monopoly on transport)

Elite formation (1550-1650):

- ~50-100 Spanish families: Controlled trade, offices, mule trains
- Intermarried: Created tight oligarchy
- Resided: Panama City (built stone houses, churches, plazas)
- Wealth: NOT from producing (no plantations, mines), from **managing flows**

Racial hierarchy:

- **Peninsulares** (Spanish-born): Top (governors, bishops, military commanders)
- **Criollos** (American-born Spanish): Elite merchants, landowners, professionals
- **Mestizos** (Spanish-Indigenous): Artisans, small merchants, muleteers
- **Indigenous** (surviving): Servants, laborers (many died—population collapsed 90%)
- **African slaves** (imported): Laborers, porters, domestic servants (5,000-10,000 by 1600s)

The Catastrophic Indigenous Collapse

Disease:

- Smallpox, measles, typhus, yellow fever, malaria
- Indigenous peoples: No immunity
- **Mortality**: 90-95% died (1500-1600)
    - 1500: ~250,000-400,000
    - 1600: ~20,000-40,000

Labor exploitation:

- Spanish: Forced Indigenous peoples to work (portage, construction, mines)
- Conditions: Brutal (overwork, malnutrition, violence)
- Fled: Survivors retreated to remote areas (Darién jungle, mountains)

African slave trade:

- Spanish: Imported enslaved Africans to replace Indigenous labor
- Numbers: 5,000-10,000 (1570-1640)
- Work: Portage, mule teams, construction, domestic service
- **Cimarrones**: Escaped slaves established communities in jungle (resisted Spanish)

By 1650:

- Indigenous population: ~20,000-30,000 (from ~300,000)
- African/African-descended: ~8,000-10,000
- Spanish/Criollo: ~5,000-8,000
- **Total population**: ~35,000-50,000 (Panama City ~5,000, scattered settlements)

IV. PANAMA UNDER ATTACK: PIRATES AND VULNERABILITY (1570-1700)

Why Pirates Targeted Panama

Simple logic:

- Panama: Transshipped ALL Peru/Bolivia silver
- **Portobelo fairs**: Millions of pesos concentrated (30-40 days)
- Camino Real: Narrow route, predictable (mule trains vulnerable)
- Spanish: Few troops (disease killed soldiers, expensive to garrison)
- **Result**: Panama = richest target in Americas

Major Pirate Attacks

1. Francis Drake (1572-1573, 1595-1596):

1572-1573 attacks:

- Drake: English privateer (government-sanctioned pirate)
- Raided: Nombre de Dios (1572, wounded, retreated)
- **1573**: Ambushed mule train on Camino Real
    - Captured: 30 tons of silver (20 million pesos)
    - Most successful: Pirate raid in colonial history
- Escaped: With treasure, returned to England (hero)

1595-1596 campaign:

- Drake: Returned with 26 ships, 2,500 men
- Goal: Sack Panama City, destroy Spanish control
- **Failed**: Yellow fever killed Drake (January 28, 1596), expedition collapsed
- Lesson: Disease protected Panama as much as Spanish did

2. Henry Morgan (1668-1671):

Background:

- Welsh privateer, based in Jamaica
- Targeted: Spanish possessions (Cuba, Venezuela, Nicaragua, Panama)

1668: Sacked Portobelo

- 460 men: Attacked Portobelo (surprise night assault)
- **Captured**: Fort, held town for ransom
- Ransom: 100,000 pesos paid
- **Tortured**: Civilians to reveal hidden treasure

1671: The Great Sack of Panama City

- January 1671: Morgan landed Caribbean coast with 1,400 men
- **Crossed isthmus**: Via Camino Real (fighting Spanish resistance)
- January 28, 1671: Attacked Panama City
    - Spanish: Outnumbered, fled
    - **Panama City**: Morgan's men burned, looted (destroyed 2/3 of city)
    - Treasure: Much had been evacuated (Morgan disappointed), got ~400,000 pesos
- Aftermath: Spanish rebuilt Panama City at new location (modern Panama City, 1673)

Impact:

- **Old Panama City**: Ruins (still visible today)
- Spanish: Strengthened fortifications (Portobelo, new Panama City)
- But: Couldn't prevent attacks (too few troops, disease)

3. Other attacks (1570-1700):

- Dozens: Small raids (English, French, Dutch pirates)
- **Constant threat**: Spanish spent fortune on defenses
- Result: Panama = militarized (forts, garrisons), expensive

Spanish Defense Costs

Fortifications:

- Portobelo: Five forts (San Jerónimo, Santiago, San Cristóbal, San Felipe, Gloria)
- Panama City: Walls, citadel (1671+)
- Camino Real: Watchtowers, garrisons along route
- **Cost**: Millions of pesos (drained treasure)

Garrisons:

- Soldiers: 500-1,000 (1600s-1700s)
- Mortality: High (disease killed 30-50% annually)
- Spanish: Constantly replaced troops (expensive)

Treasure fleets:

- Warships: Escorted merchant ships (armed galleons)
- Convoy system: Required coordination (expensive, slow)

The paradox:

- Panama: Generated revenue (customs, taxes on treasure)
- But: Defense costs consumed much revenue
- **Net**: Spanish Crown profited massively (Potosí silver funded empire), but Panama itself barely broke even

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V. DECLINE AND MARGINALIZATION (1739-1821)

Why Panama Declined

1. Cape Horn route (1616 discovered, 1700s adopted):

- Dutch: Discovered passage around southern tip of South America (Cape Horn)
- **Alternative**: Ships could sail Atlantic → Pacific without crossing Panama
- Advantages: No pirate-infested Caribbean, no unloading/reloading cargo
- Disadvantages: Longer (months vs. weeks), dangerous storms

By 1740s:

- Treasure: Increasingly shipped via Cape Horn (avoided Panama)
- Portobelo fairs: Declined (fewer ships)
- Panama: Lost primary function

2. Bourbon Reforms (1760s-1780s):

- Spanish Crown: Reorganized empire (efficiency, reduce corruption)
- **1739**: Panama transferred from Peru Viceroyalty → New Granada Viceroyalty (Bogotá, Colombia)
- Effect: Panama became peripheral (Bogotá 500+ miles away, overland connection difficult)

3. Potosí silver mines decline:

- 1600-1700: Production peaked, then declined (veins depleting, flooding)
- Less silver: Less trade through Panama

4. Agricultural limitations:

- Panama: Couldn't develop plantation economy (like Cuba, Jamaica)
- Terrain: Too mountainous, jungly
- Disease: Killed workers
- **Result**: No alternative economic base

Panama in 1800: Impoverished Backwater

Population (1800):

- Total: ~100,000-150,000
    - Panama City: ~8,000-10,000
    - Rest: Scattered towns, villages
- Composition: Mestizo majority (~60%), Africans/mulattoes (~20%), whites (~10%), Indigenous (~10%)

Economy:

- **Stagnant**: Trade minimal (few ships)
- Agriculture: Subsistence (maize, plantains, cattle)
- Export: Pearls (Pacific islands), tortoiseshell, hides (small volume)

- Revenue: Colonial government bankrupt (couldn't pay officials)

Elite:

- ~50-100 families: Merchants, landowners, officials
- Poor: By 17th-century standards (no treasure flowing)
- Spanish/Criollo: Intermarried with mestizos/mulattos (racial lines blurred)

Infrastructure:

- Camino Real: Deteriorated (jungle overgrown, unmaintained)
- Portobelo: Nearly abandoned (population <500, disease-ridden)
- Panama City: Modest provincial capital (8,000 people)

Governance:

- Weak: Spanish officials corrupt, underpaid
- Bogotá: Distant, uninterested
- Local elite: Ran cabildo (town council), minimal Crown oversight

But Strategic Value Recognized

Canal discussions (late 1700s-1810s):

- European thinkers: Proposed canal across Panama or Nicaragua
- Problem: **Technology didn't exist** (couldn't excavate on needed scale)
- **But**: Everyone knew if canal possible, Panama = ideal location

Alexander von Humboldt (1800):

- German scientist/explorer: Surveyed Americas
- Published: Analysis of nine possible canal routes (Panama, Nicaragua, Mexico)
- Conclusion: Panama best (shortest, lowest elevation)
- **Prediction**: "Canal here would transform global trade"

VI. INDEPENDENCE WITHIN GRAN COLOMBIA (1821-1831)

Panama's Peculiar Independence

November 28, 1821:

- Panama City cabildo: Declared independence from Spain

- **Immediately**: Joined Simón Bolívar's Gran Colombia (Colombia, Venezuela, Ecuador, Panama)
- No fighting: Spanish garrison weak, left peacefully

Why join Gran Colombia?

- **Too small**: Population 100,000-150,000 (couldn't defend independence alone)
- **No resources**: Economy stagnant, no revenue
- Bolívar: Promised regional federation (Panama would have autonomy)
- **Calculation**: Better part of larger state than isolated

Gran Colombia (1821-1831):

- Capital: Bogotá
- Simón Bolívar: President (1821-1830)
- Included: Venezuela, Colombia, Ecuador, Panama
- Goal: United South American federation (Bolívar's vision)

Why Gran Colombia Collapsed (1831)

Regional rivalries:

- Venezuela, Ecuador: Wanted independence (resented Bogotá centralism)
- **1830**: Venezuela, Ecuador separated

Panama's position:

- Wanted: To separate too (like Venezuela, Ecuador)
- **But**: Too weak (Venezuela 800,000 people, Ecuador 500,000, Panama 150,000)
- **Remained**: With Colombia (Nueva Granada)
- Resentment: Panamanians wanted autonomy, Colombia wanted control

The pattern established:

- Panama: Peripheral province of larger state
- Bogotá: 500+ miles away (overland journey 2-3 weeks through mountains)
- Effective control: Weak
- **Elite**: Panamanian merchants/landowners ran local affairs, Colombia collected minimal taxes

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VII. ASSESSMENT: COLONIAL ERA (1501-1821)

What Was Established

1. Transit economy dependency:

- Elite wealth: From managing flows (treasure, trade), NOT producing
- When flows stopped (1740s+): Elite impoverished
- **Pattern**: Panama prospered only when external power (Spain) needed transit
- Lesson: Elite dependent on serving external strategic interests

2. Service elite, not landed elite:

- Unlike Uruguay: Elite owned estancias (land = wealth)
- Panama: Elite owned businesses (warehouses, mule trains, ships, merchant houses)
- **Difference**: Can't "expropriate the means of production" when production is intermediation
- This would make Panama LESS vulnerable to revolutionary movements later

3. Strategic vulnerability established:

- Location: Made Panama perpetual target (pirates 1570-1700)
- Small population: Couldn't defend (relied on Spain)
- **Pattern**: Small + strategic = vulnerable to whoever controls seas

4. External dependency locked in:

- Spanish Empire: Created Panama's elite (via treasure trade)
- When Spain weakened: Elite impoverished
- **Without external hegemon**: Panama had no viable economy
- This would repeat: Colombia (1821-1903), US (1903-1999), US-China competition (2000s-2025)

5. Extreme inequality from beginning:

- Elite: ~50-100 families controlled trade, land, offices
- Masses: Mestizos, Africans, Indigenous (poor, marginalized)
- **Racial hierarchy**: Spanish/Criollo > Mestizo > African > Indigenous
- Gini: Probably 0.6-0.7 (very high, though no precise data)

6. Minimal sovereignty:

- Spanish era: Colony (no sovereignty)
- Gran Colombia era: Peripheral province (nominal sovereignty, Bogotá controlled)
- **Never autonomous**: Always ruled by distant power
- Pattern would continue: Colombia (1821-1903), US (1903-1999)

Three Monopolies Established (1821)

1. Wealth Monopoly:

- **Elite**: ~50-100 families (Spanish/Criollo merchants, landowners, officials)
- **Assets**: Commercial enterprises (warehouses, mule trains, ships), some land (near Panama City, along route)
- **NOT**: Large landholdings (unlike Uruguay's estancieros)
- **Mechanism**: Intermediated trade (captured fees, markups, rents)
- **Concentration**: Extreme (top 10% owned ~70-80% of wealth—estimate)

2. Violence Monopoly:

- **Spanish Crown** (until 1821): Military garrisons (500-1,000 troops), local militia
- **Gran Colombia** (1821-1831): Weak control (Bogotá distant)
- **Elite**: Had private armed retainers but minimal organized force
- **Pattern**: External power (Spain, Colombia) monopolized violence, local elite relied on external force

3. Information Monopoly:

- **Church**: Controlled education (few schools, all religious)
- **Literacy**: ~5-10% (only elite literate)
- **No newspapers**: Until 1810s (Panama's first newspaper 1820s)
- **Elite**: Monopolized written culture, law, communication with Spain/Bogotá

Comparative Assessment: Panama vs. Uruguay (1821)

Dimension	Panama	Uruguay
Population	100,000-150,000	75,000
Elite wealth source	**Service/intermediation** (managing transit)	**Production** (land/cattle)
Elite size	~50-100 families	~200-300 families
Land concentration	Less relevant (limited arable land)	Extreme (70-80% in elite)
External dependency	Total (survived by serving Spain)	High (exported cattle/leather)
Strategic importance	Extreme (treasure route)	Low (agricultural exports)
Sovereignty	None (Spain → Colombia)	None (Spain → Independent 1828)
Violence monopoly	**External power** (Spain, Colombia)	External initially (Spain), then internal

Indigenous peoples	90-95% died	Exterminated (Charrúa)

Key difference:

- Uruguay: Elite owned productive assets (land)—**can be expropriated**
- Panama: Elite intermediated flows (services)—**hard to expropriate**
- This difference would shape revolutionary potential in 20th century

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CONCLUSION: GEOGRAPHY AS DESTINY

Part 1 established the foundational pattern for 524 years:

1. Geographic determinism:

- Narrowest point between two oceans → Transit route
- Strategic location → Target for empires (Spain, later US, later China)
- **Inescapable**: Geography determined Panama's fate

2. Service economy created unique elite:

- Wealth: From managing flows, NOT producing
- Dependent: On external power needing transit (Spain, later US)
- **Adaptation required**: Elite must serve hegemon to prosper
- When hegemon didn't need transit (1740s-1900): Elite impoverished

3. Extreme vulnerability:

- Small population + strategic location = perpetual target
- **Couldn't defend**: Required external power (Spain) for protection
- Pirates (1570-1700): Demonstrated vulnerability
- Pattern would continue: Colombia couldn't defend (1821-1903), US would create/control (1903)

4. Elite collaboration strategy:

- Elite: Prospered by intermediating for Spanish Empire
- When Spain weakened: Elite sought new hegemon (Colombia, then US)
- **Never autonomous**: Always served external power
- This pattern persists to 2025 (serving US, now balancing US-China)

5. No revolutionary tradition:

- Unlike Uruguay: No land reform demands (Artigas 1815)
- Why? Service elite (hard to expropriate intermediation), small population, external hegemony prevented organization
- **Pattern**: Panama would have NO armed revolutionary movement like Tupamaros

The questions for Parts 2-7:

1. **Would Panama try to separate from Colombia?** (Yes, 50+ attempts 1840-1903—all failed until US backed 1903 coup)
2. **Would US create Panama to build canal?** (Yes, 1903—most blatant case of imperialism in Americas)
3. **Would Panamanian elite resist US hegemony?** (No, collaborated—profitable)
4. **Would canal return bring sovereignty?** (Partially 1999, but US retained intervention right)
5. **Can small strategic state ever be truly sovereign?** (No—Trump 2024 threatens "take canal back" proves sovereignty conditional)

Part 1 showed: Panama's elite formed serving Spanish Empire. Part 2 will show: Same elite would seek US protection to separate from Colombia, accepting US hegemony as price of "independence."

The pattern: Elite serves hegemon, captures rents, maintains internal hierarchy. Sovereignty always conditional on hegemon's interests. Geography made Panama strategic; strategy made sovereignty fictional.

END OF PART 1

To be continued in Part 2: Colombian Province and Railroad Era (1821-1903)

Word count Part 1: ~8,500 words

Total Panama case study progress: Part 1 complete

Pattern established: Geographic determinism created transit economy, elite formed around intermediation (not production), extreme vulnerability (small + strategic), external dependency (survived by serving Spain), collaboration strategy (elite prospered by serving hegemon). This 320-year foundation explains why Panama would accept US hegemony (1903) and why sovereignty remains conditional (2025).

Next: Part 2 documents Colombian era (1821-1903), railroad boom/bust, French canal failure, and how US literally created Panama as nation to build canal on US terms.

PANAMA CASE STUDY - PART 2

Elite Power Under Extreme External Constraint (1501-2025)

PART 2: COLOMBIAN PROVINCE AND RAILROAD ERA (1821-1903)

"Province of a Province: When Your Fate Is Decided 500 Miles Away"

Between 1830 and 1902, the Panamanian elite attempted to separate from Colombia at least fifty-three times. They declared independence, launched armed revolts, convened constitutional conventions, and appealed to foreign powers. Every single attempt failed. Panama was too small, too poor, and too divided to achieve independence alone. The territory that could not produce enough revenue to fund a competent militia, let alone an army, remained tethered to Bogotá by simple mathematics: 150,000 Panamanians could not resist a Colombian government commanding millions. Yet the same elite families who failed for seventy years would, in 1903, enthusiastically collaborate with a United States-backed coup that severed Panama from Colombia in three days. The difference was not Panamanian strength but American power. When a superpower guaranteed success and promised control of a canal that would make Panama's elite richer than the Spanish treasure fleet ever had, sovereignty became possible—at the price of becoming an American protectorate.

The eighty-two years between Gran Colombia's collapse and Panama's creation demonstrated the territory's fundamental condition: strategic location without power to exploit it. Geography made Panama valuable to everyone except Panamanians. When the California Gold Rush transformed the isthmus into the fastest route to Pacific wealth, tens of thousands crossed Panama paying extortionate fees to local muleteers and hoteliers. American investors built the Panama Railroad in 1855—the world's first transcontinental railroad—and Panama boomed. Then the United States completed its own transcontinental railroad in 1869, rendering Panama's route obsolete. Revenue collapsed overnight. The lesson was brutal and would be repeated: Panama's prosperity depended entirely on decisions made in Washington, San Francisco, or Bogotá. The French canal attempt between 1881 and 1889 killed twenty-two thousand workers and bankrupted a company that had successfully built the Suez Canal, yet it only reinforced what everyone already knew—Panama was the prize, but only great powers could claim it.

This part documents how Colombian centralism alienated Panamanian elites while keeping them too weak to secede; how the railroad boom and bust proved Panama's total external dependency; how the French canal disaster demonstrated both the project's feasibility and the catastrophic cost of tropical disease; and how Theodore Roosevelt, enraged by Colombian treaty rejection, orchestrated the most brazen act of United States imperialism in the Americas—the creation of an entire nation to serve American strategic interests.

I. THE GRAN COLOMBIA INTERLUDE AND PERMANENT DEPENDENCY

Panama's independence from Spain on November 28, 1821, lasted approximately six hours. The Panama City cabildo met that afternoon, voted unanimously to sever ties with the collapsing Spanish Empire, and immediately dispatched a delegation to Simón Bolívar requesting admission to Gran Colombia. There was no fighting. The Spanish garrison of two hundred soldiers accepted the inevitable and departed peacefully. Spain was too exhausted by decades of independence wars to contest the loss of a province that had ceased being strategically valuable when the treasure trade declined in the 1740s. The Panamanian elite saw no benefit in remaining attached to a dying empire. But they also saw no possibility of genuine independence. A territory of 150,000 people with a moribund economy and no military force would immediately become prey to Colombia, Britain, or the United States—all of whom recognized Panama's strategic potential even if they lacked the technology to exploit it yet.

Simón Bolívar's vision for Gran Colombia promised federal autonomy within a regional superpower. The new republic would unite Venezuela, Colombia, Ecuador, and Panama—roughly 3.5 million people—into a federation capable of resisting European intervention and eventually incorporating Peru and Bolivia. Panama would govern its own internal affairs while benefiting from the protection and prestige of a larger state. For Panamanian elites, this appeared to be the least bad option. They were too small to survive alone, but federation offered some dignity. Bolívar's reply to Panama's request was gracious: "Panama will be a free province of our republic." The promise would prove hollow within a decade.

Gran Colombia collapsed under the weight of its own contradictions between 1828 and 1831. Despite his federal rhetoric, Bolívar governed centralistically from Bogotá, alienating the provinces he claimed to protect. Venezuela and Ecuador had populations and economies substantial enough to sustain independence—800,000 and 500,000 people respectively, with coffee, cacao, and textile production providing revenue. Both separated in 1830. Panama wanted to follow. The elite's resentment of Bogotá was already profound—five hundred miles of mountains and jungle separated the capital from the isthmus, making communication maddeningly slow while Colombian officials extracted taxes and provided minimal services in return. But Panama had neither Venezuela's population nor Ecuador's economic base. With 150,000 people and an economy that had produced almost nothing since the treasure trade ended, independence was suicide. Panama remained with Colombia not by choice but by necessity. The pattern of forced dependency was established, and it would take American intervention seventy-two years later to break it.

II. FIFTY-THREE FAILURES: THE IMPOSSIBILITY OF SEPARATION WITHOUT EXTERNAL POWER

The history of Panama under Colombian rule from 1831 to 1903 can be summarized as follows: Bogotá neglected Panama, extracted what revenue existed, and suppressed every attempt at autonomy. The Panamanian elite chafed under this arrangement, repeatedly attempted separation, and repeatedly failed. The pattern was so consistent it became almost ritualistic. A crisis would emerge—a Colombian civil war, a change in constitutional arrangements, a particularly egregious instance of Bogotá's indifference—and Panamanian separatists would declare independence. Colombian troops would march to the isthmus or, more often, simply wait for the movement to collapse from internal divisions and lack of resources. The separatists would negotiate amnesty and rejoin Colombia. Within a few years, the cycle would repeat.

The first serious attempt came in 1840 when Tomás Herrera, a Panamanian military officer, declared the "Estado del Istmo"—the State of the Isthmus. Herrera convened a constitutional convention, drafted governing documents, and established what appeared to be a functioning independent government. The movement enjoyed genuine popular support, at least among Panama's tiny political class. But Herrera had no army capable of resisting Colombian forces, no foreign power willing to recognize Panamanian independence, and no revenue to sustain government operations. When Colombia offered amnesty in 1841, Herrera accepted. The Estado del Istmo disappeared as quickly as it had emerged, leaving only the bitter lesson that Panama's strategic importance to others did not translate into power for Panamanians.

Throughout the 1850s and 1860s, Panama attempted independence during Colombia's endemic civil wars between Liberals and Conservatives. These conflicts offered opportunities—Bogotá was distracted, Colombian forces were committed elsewhere, and foreign powers temporarily showed interest in Panamanian autonomy. Yet every attempt failed for the same reasons. Panama was too small to defend itself, too poor to finance sustained resistance, and too divided internally to maintain unity long enough to succeed. The elite families who led separatist movements were the same families who fought each other for local dominance. Liberal and Conservative factions feuded as bitterly in Panama City as their counterparts did in Bogotá. Even when they agreed on independence, they could not agree on who would govern afterward. Colombia exploited these divisions ruthlessly, bribing some elite families while threatening others, appointing Panamanians to Colombian governorships to co-opt potential leaders.

The period from 1863 to 1886 offered a tantalizing glimpse of what autonomy might look like. Colombia adopted a federal constitution in 1863 that transformed provinces into semi-sovereign states with their own constitutions and elected governors. Panama became the "Federal State of Panama," and for twenty-three years it enjoyed more self-governance than at any point in its history. But this autonomy was conditional and reversible. Panama could not conduct independent foreign policy, could not maintain a real army, and remained economically dependent on Colombia. When Rafael Núñez recentralized Colombia with the 1886 constitution, ending the federal experiment, Panama lost even this limited autonomy. Governors were once

again appointed from Bogotá. The Panamanian elite's frustration deepened, but they remained as powerless as ever to do anything about it.

By one count, Panama attempted separation at least fifty-three times between 1830 and 1902. The exact number depends on how one categorizes the various declarations, revolts, and constitutional maneuvers. What matters is not the precise count but the pattern: none succeeded. Geography and demography created an impossible situation. Panama was separated from Colombia by terrain so difficult that communication took weeks and military operations were nightmarishly expensive. This isolation created resentment and made effective Colombian governance nearly impossible. But the same isolation meant that Panama could not leverage its separation for independence. Too few people, too little wealth, too many internal divisions. Without external support, Panamanian independence was a fantasy that generations of elites pursued with increasing desperation and consistent failure.

III. THE CALIFORNIA GOLD RUSH AND THE FIRST BOOM-BUST CYCLE

Everything changed on January 24, 1848, when James Marshall discovered gold at Sutter's Mill in California. Within months, tens of thousands of Americans were scrambling to reach the Pacific coast before the easily accessible deposits were claimed. The problem was getting there. The overland route across the continental United States required six months of travel through territory controlled by often-hostile Native American nations, with death rates approaching five percent. Sailing around Cape Horn required six to eight months at sea through some of the most dangerous waters on Earth. But the Panama route offered an alternative: sail to Panama's Caribbean coast, cross the isthmus, and sail north to California. Total journey time: six to eight weeks. For Americans desperate to reach the goldfields, Panama became the obvious choice.

Between 1849 and 1869, approximately 375,000 people crossed Panama. Most were Americans heading to California, though the route also served travelers going the opposite direction carrying their newly acquired wealth back East. The impact on Panama's moribund economy was transformative and immediate. The same isthmus that had languished in poverty since the treasure trade's decline suddenly became the site of a massive, sustained economic boom. Panamanians with mules charged twenty-five to fifty dollars to transport a single passenger across fifty miles of jungle—a fortune in 1850s currency. Hotels and taverns sprang up along the route, charging inflated prices for basic accommodations. A single egg cost one dollar. A loaf of bread cost two dollars. Travelers had no choice but to pay.

The journey across Panama was hellish. Passengers disembarked at Chagres on the Caribbean coast and transferred to canoes that took them forty miles up the Chagres River, a journey of one to two days during which passengers were exposed to brutal heat, torrential rains, and clouds of mosquitoes. From the river's navigable terminus, travelers crossed twenty to thirty miles on foot or by mule through dense jungle. Disease killed five to ten percent of travelers—yellow fever, malaria, cholera, dysentery, and simple exhaustion claimed

approximately twenty to thirty thousand lives between 1849 and 1869. The bodies were buried in mass graves near Colón or simply left to rot in the jungle. But for Panamanians, the Gold Rush represented the first sustained economic opportunity since the eighteenth century. Panama City's population tripled from five thousand in 1845 to fifteen thousand in 1855. Colón was founded in 1850 on previously uninhabited swampland and grew to three thousand people within five years.

The elite families who controlled mule trains, owned lodges, and provided services to the flood of travelers prospered enormously. Perhaps fifty to one hundred families captured the majority of the windfall, though foreign merchants—Americans and Europeans who opened hotels, saloons, and brothels catering to the predominantly American clientele—also profited substantially. Panama's economy was generating an estimated twenty to thirty million dollars annually by the mid-1850s, more than double the territory's entire GDP during the Colombian era's quiet decades. But the wealth was distributed grotesquely. The elite and foreign merchants captured almost all of it. Panamanian workers—porters, boatmen, cooks—were paid better than during normal times but remained poor. And the boom carried within it the seeds of inevitable bust. Panama prospered because Americans needed to cross it. When Americans no longer needed to cross it, Panama would collapse.

The chaos accompanying this sudden wealth tested Colombia's already minimal governance capacity. Crime was endemic. Robberies and murders were common, with California gold attracting criminals as surely as it attracted honest prospectors. In April 1856, an incident that became known as the Watermelon Riot demonstrated how fragile order had become. An American passenger shot a Panamanian vendor during a dispute over the price of a watermelon. Panamanian bystanders attacked the Americans. The violence escalated into a riot that killed fifteen to twenty people. Colombia's garrison was too small and too poorly equipped to maintain order. The Colombian government could barely govern Panama during quiet times; during the Gold Rush, it essentially abdicated, collecting what customs revenue it could while local elites and foreign merchants ran the territory as they saw fit.

IV. THE PANAMA RAILROAD AND FOREIGN CAPITAL EXTRACTION

The success of the Panama route during the Gold Rush made one thing clear: whoever could transport passengers and freight across the isthmus quickly and safely would make an enormous fortune. Canoes and mules were slow, dangerous, and limited in capacity. What was needed was a railroad. In 1850, a consortium of American investors led by William Aspinwall, John Lloyd Stephens, and Henry Chauncey secured a concession from the Colombian government to build a railroad connecting the Atlantic and Pacific coasts. The terms were favorable to the Americans: a ninety-nine-year lease, minimal royalty payments to Colombia, and effective control over the route that would remain Panama's economic lifeline for half a century.

Construction began in 1850 and was completed in January 1855. The Panama Railroad was forty-seven and a half miles long, running from Colón on the Caribbean coast to Panama City on the Pacific. It was the first transcontinental railroad anywhere in the world—completed fourteen years before the United States would finish its own transcontinental line at Promontory Summit. The achievement was remarkable. It was also catastrophically expensive in human lives. The railroad company recruited twelve to fifteen thousand workers—Irish, Chinese, Afro-Caribbeans, and Panamanians. Disease killed them by the thousands. Estimates vary, and record-keeping was haphazard, but somewhere between six and twelve thousand workers died building the railroad. Yellow fever and malaria were the primary killers, though accidents, heat exhaustion, and cholera also claimed lives. The legend that "every railroad tie cost a life" was an exaggeration, but it captured an essential truth: the Panama Railroad was built on mass death.

The railroad was immediately and spectacularly profitable. The company charged twenty-five dollars per passenger and two to five dollars per ton of freight. Annual revenue reached seven million dollars by the late 1850s, with profit margins approaching fifty percent. But almost none of this wealth stayed in Panama. The railroad was owned by an American corporation. Profits were repatriated to the United States. The Colombian government received $250,000 annually in royalty payments—a pittance compared to the railroad's earnings. Panamanian elites who had profited from mule trains and lodges during the early Gold Rush years saw their businesses collapse, displaced by the railroad's superior efficiency. Some adapted by securing service contracts—providing food, lodging, and supplies to railroad workers and passengers—but the wealth they captured was a fraction of what the American owners extracted.

This pattern would repeat throughout Panamanian history and was already visible during the Spanish colonial period: foreign capital built infrastructure, extracted the majority of profits, and left local elites to intermediate and capture marginal rents. The railroad demonstrated that Panama's strategic location was valuable, but Panama's weakness meant that others would exploit that value. The elite families who controlled local businesses benefited compared to the masses, but they were junior partners in an enterprise dominated by foreign capital. Colombia, meanwhile, proved itself incapable of leveraging Panama's strategic importance for its own benefit. The royalty payments it extracted were minimal, and its governance remained weak and ineffective.

Then, on May 10, 1869, the United States completed its transcontinental railroad at Promontory Summit, Utah. Americans could now travel from New York to San Francisco in seven days for fifty dollars. The Panama route, which took six weeks and cost two hundred to four hundred dollars, became obsolete overnight. Transit traffic across the isthmus collapsed by eighty to ninety percent. The Panama Railroad's revenue fell from seven million dollars annually to one to two million. Panama City's population, which had reached fifteen thousand during the boom years, declined to twelve thousand by 1880. Elite families that had grown wealthy from services watched their incomes evaporate. Workers who had found steady employment during the boom were unemployed. Panama's economy crashed as suddenly as it had boomed.

The lesson was brutal and would be repeated over the next fifty years: Panama's prosperity was entirely dependent on decisions made elsewhere. When external powers needed Panama, the

territory boomed. When they did not, it collapsed. The elite could not create an alternative economic base. Panama's agricultural potential was limited by mountainous terrain, tropical disease, and poor soil. There was no mineral wealth. Manufacturing was impossible in such a small market. The only source of prosperity was managing transit across the isthmus. Without transit, there was nothing. The elite's desperate hope was that someone would build a canal. If they did, Panama might boom again. If they did not, Panama would remain impoverished indefinitely.

V. THE FRENCH CANAL DISASTER: TWENTY-TWO THOUSAND DEAD

Ferdinand de Lesseps was seventy-four years old in 1879 when he committed to building a canal across Panama. He was also one of the most celebrated engineers in the world, having successfully completed the Suez Canal a decade earlier. The Suez Canal had connected the Mediterranean to the Red Sea, transforming global shipping patterns and making de Lesseps an international celebrity known as "The Great Engineer"—despite the fact that he was not actually an engineer but a diplomat and entrepreneur. His success at Suez convinced him that Panama would be equally straightforward. He was catastrophically wrong.

De Lesseps chose Panama over Nicaragua in 1878 after dispatching survey teams to both potential routes. Panama was shorter—approximately fifty miles compared to Nicaragua's one hundred twenty—and seemed more manageable. He planned to build a sea-level canal, exactly as he had at Suez. Ships would enter at one coast and sail directly through to the other without locks or elevation changes. This approach had worked in Egypt, where the terrain was flat desert and the climate was dry. Panama was neither flat nor dry, but de Lesseps was confident that superior French engineering would overcome any obstacles.

In 1879, his company, the Compagnie Universelle du Canal Interocéanique, secured a concession from the Colombian government. The terms granted the French exclusive rights to build and operate a canal for ninety-nine years, after which ownership would transfer to Colombia. In exchange, Colombia would receive $250,000 annually plus a share of profits. The French paid twenty million dollars upfront to the Colombian government and acquired the Panama Railroad for ten million dollars, giving them control over the isthmus's existing infrastructure. Construction began on January 1, 1881, with de Lesseps projecting completion in eight years at a cost of $150 million.

The project failed for three reasons, each of which should have been foreseeable but which de Lesseps' arrogance and the legacy of Suez caused him to ignore. The first and most devastating was disease. Yellow fever and malaria killed workers by the hundreds every month. Between 1881 and 1889, the French employed seventy-five to eighty-five thousand workers total. Approximately twenty-two to twenty-five thousand died—a death rate approaching thirty percent. The disease environment was so lethal that labor turnover was constant. Workers arrived, died or fled, and had to be replaced continuously. The French recruited heavily from the Caribbean—Jamaica, Martinique, Barbados, Trinidad—bringing approximately fifty thousand

Afro-Caribbean workers to Panama over eight years. They also recruited Italians, Spaniards, and French citizens. All died in roughly equal proportions.

The tragedy was compounded by medical ignorance. In the 1880s, the medical establishment believed disease was caused by "miasma"—bad air emanating from swamps and rotting vegetation. The actual cause was mosquitoes, but this would not be discovered until the 1890s and not definitively proven until 1900. The French tried to prevent disease by ventilating hospitals, which actually increased mosquito populations by creating more breeding sites. They placed water-filled pans under hospital beds to prevent ants from crawling up the legs—inadvertently creating perfect mosquito breeding habitat. Patients admitted with minor injuries contracted yellow fever from mosquitoes in the hospital and died. The death rate among hospitalized workers exceeded seventy-five percent. Those who survived often fled Panama, terrified by watching colleagues die in agony from hemorrhagic fever.

The second reason for failure was engineering. A sea-level canal through Panama was impossible with 1880s technology. Panama is not flat. The Continental Divide runs through the proposed canal route, reaching elevations of six hundred feet. The Chagres River, which flows through the canal zone, floods violently and unpredictably during the rainy season, rising ten to fifty feet overnight. De Lesseps' plan required excavating the entire route to sea level—roughly three hundred million cubic yards of earth and rock—and controlling the Chagres River's floods. Neither was achievable.

The Culebra Cut, where the canal crossed the Continental Divide, became a nightmare. French workers excavated the cut continuously for eight years. Landslides filled it back in almost as quickly. The volcanic soil was unstable and became saturated during heavy rains. Excavated slopes would collapse, burying equipment and workers. In some cases, areas that had taken months to excavate were refilled within days by landslides. The French excavated furiously but made minimal progress. Meanwhile, the Chagres River repeatedly flooded the canal works, washing away months of construction in a single night. De Lesseps had assumed Panama would be like Egypt—stable soil, predictable conditions. He was wrong, and his error cost thousands of lives and hundreds of millions of dollars.

The third reason for failure was financial corruption. The project's budget of $150 million proved woefully inadequate. By 1889, the French had spent $287 million and the canal was only forty percent complete. The money went to legitimate costs—excavation, equipment, hospital construction—but also to massive corruption. Colombian officials received ten to twenty million dollars in bribes. French politicians received twenty to thirty million dollars to secure government loans and concessions. Company executives and contractors embezzled an estimated fifty million dollars through kickbacks and fraudulent billing. When the corruption was exposed in the Panama Canal Scandal of 1892, it destroyed what remained of the project's credibility.

On February 4, 1889, the Compagnie Universelle du Canal Interocéanique declared bankruptcy. The company had consumed $287 million—most of it from French middle-class investors who lost their life savings—and left behind a forty-percent-complete canal, twenty-two thousand dead workers, and a landscape littered with rusting equipment. A new French company formed

in 1894 to salvage what it could, but by 1903 this company was desperate to sell its assets before the Colombian concession expired in 1904. The French canal disaster demonstrated that building an inter-oceanic canal through Panama was possible but required resources, technology, and disease control that exceeded what a private company could muster. It would require a state, specifically the most powerful state on Earth.

For Panama, the French failure meant another economic boom followed by catastrophic bust. Between 1881 and 1889, seventy-five thousand workers had generated an enormous economic stimulus. The elite families who owned hotels, warehouses, and supply businesses prospered. Then, in February 1889, the boom ended as abruptly as the Gold Rush boom had ended in 1869. Workers departed. Construction stopped. The economy collapsed. Panama was left with cemeteries full of Caribbean and European workers, rusting French machinery, and the bitter knowledge that its strategic importance to others translated into periodic booms that always ended in depression. The elite's only hope was that someone else would try again. In 1903, someone would—but this time, they would create an entirely new nation to ensure their success.

VI. THEODORE ROOSEVELT CREATES A NATION

The United States' interest in an inter-oceanic canal crystallized during the Spanish-American War of 1898. When the war began, the battleship USS Oregon was stationed in San Francisco. It needed to reach Cuba in the Caribbean to support American operations. The Oregon sailed around Cape Horn, a journey of sixty-eight days covering thirteen thousand miles. The ship arrived safely and performed well in combat, but the strategic vulnerability was obvious. If the United States was to be a two-ocean naval power—and after acquiring the Philippines, Hawaii, and Puerto Rico in 1898, it had no choice—it needed a canal allowing rapid movement of warships between the Atlantic and Pacific.

Congressional debates between 1899 and 1902 focused on two potential routes: Nicaragua and Panama. Nicaragua offered advantages—a stable government, a large lake that could serve as part of the canal route, and no legacy of French failure. Panama was shorter and had forty percent of the excavation already complete from French efforts, but Colombia's government was difficult to deal with and the French failure cast doubt on the route's feasibility. The Walker Commission, appointed by Congress to study the question, initially recommended Nicaragua. But Philippe-Jean Bunau-Varilla, a French engineer who had worked on de Lesseps' canal and now held stock in the New Panama Canal Company desperate to sell its assets, lobbied ferociously for Panama. He dropped the asking price for French assets from $109 million to $40 million and conducted a brilliant propaganda campaign that included sending every U.S. senator a Nicaraguan postage stamp depicting an erupting volcano—a reminder that Nicaragua was volcanically active while Panama was not. In June 1902, Congress chose Panama by a narrow margin.

Secretary of State John Hay negotiated with the Colombian diplomat Tomás Herrán throughout late 1902 and early 1903. The result was the Hay-Herrán Treaty, signed on January 22, 1903.

The treaty granted the United States a six-mile-wide canal zone for one hundred renewable years in exchange for $10 million upfront and $250,000 annually. The United States would have control over the zone "as if it were sovereign," though Colombia retained nominal sovereignty. The U.S. Senate ratified the treaty in March 1903. Then, in August 1903, the Colombian Senate unanimously rejected it.

Colombia's reasons for rejection were both principled and pragmatic. Nationalist senators argued that the treaty surrendered too much sovereignty—the phrase "as if it were sovereign" effectively gave the United States full control over Colombian territory. Others calculated that waiting would be more profitable. The French concession expired in 1904. If Colombia waited, it could renegotiate directly with the United States without the French intermediary capturing forty million dollars. Some senators wanted more money—twenty-five million dollars upfront instead of ten million, and five hundred thousand dollars annually instead of $250,000. The Colombian government, weakened by the recently concluded Thousand Days' War that had killed more than one hundred thousand people, lacked the political capital to force the treaty through. The Senate's rejection was unanimous.

Theodore Roosevelt was furious. He had publicly committed to building a canal, Congress had authorized it, and he viewed Colombia's rejection as banditry. In private correspondence and public speeches, he called Colombian senators "bandits," "blackmailers," "homicidal corruptionists," and a "corrupt pithecoid community." He had three options: negotiate a better treaty with Colombia (which he rejected as too slow and expensive), switch to Nicaragua (possible but Panama was superior), or support Panamanian independence and negotiate with a more compliant government. He chose the third option.

The conspiracy was not particularly subtle. Bunau-Varilla, who stood to lose his entire investment if the canal was not built, coordinated between Panamanian separatists and the Roosevelt administration. Dr. Manuel Amador Guerrero, a physician who worked for the Panama Railroad, traveled to New York in September 1903 and met with Bunau-Varilla, who assured him that the United States would support Panamanian independence and prevent Colombian military intervention. Bunau-Varilla provided one hundred thousand dollars to finance the coup—a fortune that ensured elite cooperation—and outlined the plan. The separatists would declare independence in Panama City. The United States would position warships to prevent Colombian troops from crossing the isthmus. Once independence was secured, Panama would immediately negotiate a canal treaty on terms favorable to the United States.

On October 30, 1903, the USS Nashville received orders to sail to Colón. Additional warships—the USS Dixie and USS Mayflower—were dispatched shortly after. The Nashville arrived on November 2. On November 3 at 5:00 PM, the conspirators met at a fire station in Panama City and declared independence from Colombia. A crowd of perhaps three hundred people—mostly elite families and their supporters—gathered to celebrate. The Colombian garrison in Panama City, five hundred soldiers commanded by Brigadier General Esteban Huertas, had been bribed with fifty thousand dollars in gold. Huertas ordered his troops to support independence. The Colombian civilian officials, including the governor, were arrested and held briefly before being released.

The real test came in Colón, where five hundred Colombian troops commanded by Brigadier General Juan Tobar had landed on November 3. Tobar demanded that the Panama Railroad transport his troops to Panama City to suppress the rebellion. The railroad superintendent, an American citizen, refused, citing orders from the U.S. Navy. When Tobar threatened to seize the railroad by force and burn Colón if resisted, forty-two U.S. Marines from the Nashville landed on November 4. The American commander informed Tobar that any violence against the railroad or the city would be met with American military force.

Tobar recognized the futility of his position. He commanded five hundred troops. More than one thousand American Marines could land within hours from the warships offshore, and thousands more could arrive within days. Colombia had no naval power to contest American control of the seas. Fighting would be suicidal. On November 5, Tobar negotiated his departure. He accepted eight thousand dollars in gold—a bribe paid by the Panamanian separatists from funds provided by Bunau-Varilla—and sailed back to Colombia with his troops. The coup had succeeded. Total casualties: one Colombian soldier killed in an accident, one Chinese immigrant caught in crossfire in Panama City, and one donkey struck by an artillery shell that failed to explode. By any measure, it was the most bloodless revolution in history. It was also one of the most brazen acts of imperialism.

On November 6, 1903, the United States recognized Panama's independence. No other nation recognized Panama for weeks—the entire operation was so transparently an American creation that even nations generally friendly to the United States hesitated to endorse it immediately. Panama appointed Bunau-Varilla—a French citizen who had never lived in Panama and owned no property there—as its minister to the United States with full authority to negotiate a canal treaty. The reason was simple: Bunau-Varilla had orchestrated the coup and could secure American support. On November 18, 1903, Secretary of State John Hay and Minister Bunau-Varilla signed a treaty.

The Hay-Bunau-Varilla Treaty was more favorable to the United States than the Hay-Herrán Treaty that Colombia had rejected. Instead of a six-mile-wide zone, the United States received a ten-mile-wide zone—553 square miles, or approximately ten percent of Panama's total land area. Instead of a one-hundred-year renewable lease, the United States received control "in perpetuity"—forever. The treaty explicitly granted the United States all rights "as if it were sovereign" and added that the United States could intervene militarily anywhere in Panama "to maintain order." Panama received the same payment Colombia had been offered: ten million dollars upfront and $250,000 annually starting in 1913. The Panamanian provisional government, which had not yet been formally elected, accepted the treaty. They had no choice. The United States had created Panama and could destroy it just as easily.

The coup demonstrated the ultimate expression of small-state vulnerability. For seventy years, Panamanian elites had attempted independence and failed. The fifty-fourth attempt succeeded not because Panamanians had become stronger but because a great power decided their independence served American interests. Panama's sovereignty was conditional from birth. The country existed because the United States wanted a canal and found Colombia's terms unacceptable. When American and Panamanian interests aligned, Panama was independent.

When they conflicted, American power would prevail. This would remain true for the next century.

ASSESSMENT: EIGHTY-TWO YEARS OF FORCED DEPENDENCY

The Colombian era from 1821 to 1903 established patterns that would define Panama for the next 120 years. The most fundamental was that Panama could not achieve independence through its own power. Geography separated Panama from Bogotá by mountains and jungle that made effective governance nearly impossible, yet the same isolation prevented Panama from leveraging separation into independence. The territory was too small, too poor, and too divided. Fifty-three attempts at separation failed because no foreign power was willing to guarantee Panamanian independence—until 1903, when the United States decided that creating a new nation was easier than negotiating with Colombia.

The railroad boom and bust cycle from 1848 to 1869 demonstrated Panama's absolute dependency on external decisions. When the California Gold Rush made the isthmus the fastest route to Pacific wealth, Panama boomed. When the United States completed its transcontinental railroad, Panama collapsed. The elite families who profited from transit could not create an alternative economic base. Agriculture was limited by terrain and disease. Manufacturing was impossible in such a small market. The only source of prosperity was managing flows across the isthmus. This pattern would repeat with the French canal attempt—boom from 1881 to 1889, bust after bankruptcy—and would continue through the twentieth century. Panama's prosperity was always contingent on others needing Panama, and when they did not, there was nothing.

The French canal disaster killed twenty-two thousand workers and bankrupted a company that had successfully built the Suez Canal, yet it proved that an inter-oceanic canal was technically feasible. The failures were fixable with sufficient resources and better understanding of tropical disease. What the French lacked was state power. Building a canal through Panama required not just engineering expertise and capital but also the ability to control territory, manage labor on a massive scale, and sustain operations despite catastrophic death rates. Only a great power could marshal these resources. The United States was that power, and in 1903 it demonstrated that when great powers want something badly enough, small states' sovereignty becomes negotiable.

The elite families who collaborated with the American coup were the same families who had failed fifty-three times to achieve independence on their own. They were not betraying Panamanian nationalism by accepting American hegemony—they were being realistic about power. Without American backing, Panama would have remained a Colombian province indefinitely. With American backing, Panama gained independence and the promise of wealth from canal operations. The price was sovereignty. The United States would control ten percent

of Panama's territory in perpetuity, maintain military bases, and reserve the right to intervene anywhere in Panama to protect American interests. For Panamanian elites, this was acceptable because the alternative was worse. They would prosper by serving American interests exactly as their ancestors had prospered by serving Spanish interests during the treasure fleet era. The pattern of elite intermediation serving external hegemons, established during three centuries of Spanish rule, would continue for another century under American protection.

The three monopolies that structured Panamanian society in 1903 reflected this fundamental dependency. The wealth monopoly remained concentrated in approximately one to two hundred elite families who controlled banking, commerce, and land near the transit route. These families had accumulated fortunes during the Gold Rush and French canal booms, lost some during the busts, and now positioned themselves to profit from American canal construction. But they owned businesses and real estate, not the productive infrastructure itself. The Panama Railroad was American-owned. The canal would be American-built and American-controlled. The elite's wealth came from intermediating—providing services, supplies, and labor to American operations—not from owning the strategic assets that made Panama valuable.

The violence monopoly had never been effectively controlled by Panamanians. During the Spanish colonial period, Madrid's garrisons maintained order. During the Colombian period, Bogotá's troops suppressed the fifty-three separatist attempts. In 1903, American warships created Panamanian independence by blocking Colombian military intervention. This pattern would continue. The United States would maintain fourteen military bases in the Canal Zone, deploy thousands of troops, and intervene repeatedly in Panamanian politics whenever American interests appeared threatened. Panama would not develop a serious military force until the National Guard was created in the 1950s, and even then, American power so overwhelmingly dominated the isthmus that Panamanian forces were irrelevant. The violence monopoly was American, not Panamanian, and would remain so until the bases closed in 1999.

The information monopoly was weakening by 1903 but remained elite-dominated. Literacy had increased from ten percent during the late Spanish colonial period to perhaps twenty-five or thirty percent by the turn of the century. Newspapers existed in Panama City and Colón, owned by elite families and expressing elite interests. But the population remained small—approximately three hundred thousand people by 1903—and political participation was limited to literate property-owning males, perhaps five to ten percent of the population. The masses were excluded from political life and lacked the education or organizational capacity to challenge elite dominance. This would change gradually over the twentieth century as education expanded and labor movements emerged, but in 1903, the elite's control over information and political discourse was nearly absolute.

Panama in 1903 was fundamentally different from Uruguay in ways that would shape the next century. Uruguay's elite controlled productive assets—land and cattle—that revolutionary movements could target for expropriation. Panama's elite controlled service businesses and real estate that were harder to conceptualize as targets for redistribution. Uruguay developed a revolutionary movement, the Tupamaros, that directly challenged elite wealth through armed struggle and demanded expropriation of estancias. Panama would never develop such a

movement because the nature of elite wealth made revolutionary demands less concrete and because American hegemony was so overwhelming that organizing armed resistance was nearly impossible. The United States would not tolerate a revolutionary challenge in a territory it had created specifically to serve American strategic interests.

The Colombian era ended with Panama's creation as an independent nation on November 3, 1903. But the sovereignty was fictional. The country existed because the United States wanted it to exist. The elite prospered because they served American interests. The canal that would be built over the next eleven years would transform Panama's economy and confirm its role as an intermediary serving external powers. Panama was independent in name, but its fate would be decided in Washington for the next century. The pattern established during three centuries of Spanish rule—elite wealth from managing transit, external powers controlling strategic assets, sovereignty as conditional fiction—would continue under American hegemony. Geography had made Panama strategically valuable. American power would ensure that Panama could never control its own strategic value.

PANAMA CASE STUDY - PART 3

Elite Power Under Extreme External Constraint (1501-2025)

PART 3: US-BACKED INDEPENDENCE AND CANAL CONSTRUCTION (1903-1914)

"A Nation Created for a Canal: When Sovereignty Begins as Strategic Fiction"

The Panama Canal was the largest, most expensive, and deadliest engineering project in human history when construction began in May 1904. The United States would excavate 240 million cubic yards of earth and rock—enough to bury Manhattan to the height of a twelve-story building. The project would employ 56,000 workers at its peak and spend $375 million—equivalent to roughly $11 billion today and more than the United States had spent on anything except the Civil War. Approximately 5,600 workers would die during construction, bringing the total death toll from French and American attempts to nearly 28,000 lives. The canal would fundamentally transform global shipping patterns, establish the United States as the dominant power in the Western Hemisphere, and confirm Panama's role as a territory that existed to serve external interests.

Yet the most remarkable aspect of the canal's construction was not its scale but how the United States succeeded where France had failed catastrophically. The difference was not primarily technological or financial—though American resources exceeded French capabilities—but organizational and medical. The United States approached canal construction as an exercise in imperial administration, bringing to bear the full power of a modern state. Where the French company had relied on private contractors and operated with minimal government support, the United States deployed military engineers, established quasi-colonial governance structures, and treated the Canal Zone as sovereign American territory. Most crucially, American doctors solved the disease problem that had killed twenty-two thousand French workers. By controlling mosquitoes, the United States transformed Panama from a death trap into a construction site where workers could survive long enough to finish the job.

The canal's completion in August 1914 established the pattern that would define Panama-United States relations for the next century. The Canal Zone became a slice of American territory inside Panama—complete with American laws, American courts, American schools, and American military bases. Tens of thousands of Americans would live in the Zone for the next eighty-five years, visible daily to Panamanians as a reminder that their independence was conditional. The Panamanian elite who had collaborated with the 1903 coup

prospered enormously by intermediating between American power and Panamanian labor, providing services, supplies, and political cover for American operations. They became wealthy not by owning the canal but by managing the flows it generated, exactly as their ancestors had prospered from managing Spanish treasure flows three centuries earlier. Panama was independent in name, but American power monopolized violence, controlled the strategic asset, and determined the territory's economic fate. Geography had made Panama strategically valuable. American imperialism ensured that Panama could never control its own strategic value.

I. LEARNING FROM CATASTROPHE: THE FRENCH LESSONS

When the United States took control of the French canal assets in April 1904, American engineers inherited more than rusting equipment and forty percent of a failed excavation. They inherited a comprehensive lesson in how not to build an inter-oceanic canal through tropical jungle. Ferdinand de Lesseps had approached Panama with the confidence of a man who had conquered the Suez desert and assumed that superior French engineering could overcome any obstacle. His arrogance had cost 22,000 lives and $287 million. The Americans, studying the wreckage, concluded that three fundamental errors had doomed the French attempt: the wrong design, inadequate disease control, and insufficient state power to sustain operations at the necessary scale.

The design error was obvious. De Lesseps had insisted on a sea-level canal without locks, exactly as he had built at Suez. The problem was that Panama bore no resemblance to Egypt. Suez crossed flat desert at sea level with minimal rainfall and no rivers. Panama crossed mountains rising six hundred feet above sea level, received 100-200 inches of rain annually, and was bisected by the Chagres River, which flooded violently and unpredictably during the rainy season. The French had tried to excavate the entire route down to sea level and control the Chagres through channelization. The mountains defeated them with constant landslides, and the Chagres repeatedly flooded their excavations, washing away months of work in a single night. By 1887, even de Lesseps had been forced to abandon the sea-level design and adopt a lock system, but by then the company was bankrupt.

The Americans chose locks from the beginning. Their plan called for damming the Chagres River to create an artificial lake—Gatun Lake—that would become the largest man-made lake in the world. Ships would be raised eighty-five feet above sea level through locks, sail across the lake, and be lowered back to sea level on the Pacific side. This design required far less excavation than a sea-level canal, used the Chagres as an asset rather than fighting it, and was actually achievable with existing technology. The lock design was not original to the Americans—a French engineer named Philippe Bunau-Varilla had proposed it in the 1880s—but the Americans had the resources and authority to implement it at scale.

The disease problem was more complex. When construction began in May 1904, yellow fever and malaria were still killing workers at rates approaching those of the French era. In the canal's first year, 200-300 workers died monthly from disease. American doctors initially followed the same failed approaches as the French, attempting to eliminate "miasma" through ventilation and sanitation. The breakthrough came from an unlikely source: Dr. William Gorgas, an Army physician who had successfully controlled yellow fever in Havana during the Spanish-American War by eliminating mosquito breeding sites.

Gorgas faced fierce resistance from canal administrators who considered his focus on mosquitoes a waste of money. John Wallace, the first American chief engineer, openly mocked Gorgas and refused to provide adequate funding for mosquito control. Wallace lasted only one year before resigning in frustration over the death rates and administrative chaos. His replacement, John Stevens, was more receptive, but it was not until George Washington Goethals took command in 1907 that Gorgas received the resources he needed. By then, the disease problem was already being solved through a campaign of astonishing scale and expense.

Gorgas's approach was simple but required resources that only a state could provide. Eliminate standing water where mosquitoes bred, screen all buildings to prevent mosquitoes from entering, fumigate buildings where yellow fever patients had been, and drain or oil every pool of water within miles of the canal route. American workers drained swamps, filled puddles, screened thousands of windows, fumigated hundreds of buildings, and covered every open water container with fine mesh. They imported tons of insecticide and sprayed relentlessly. The cost was staggering—the mosquito control campaign consumed millions of dollars—but the results were undeniable. Yellow fever cases declined from hundreds per month in 1904 to zero by 1906. Malaria cases fell from thousands to hundreds. By 1907, the Canal Zone had lower death rates from disease than most American cities. Workers still died—approximately 5,600 over ten years—but from accidents, not epidemics.

The third lesson from French failure was that building the canal required state power, not private enterprise. The Compagnie Universelle had been a private corporation relying on investor capital and operating under Colombian concession. When the money ran out and death rates remained catastrophic, the company had no recourse except bankruptcy. The United States faced no such constraints. Congress appropriated $375 million for canal construction—the largest single expenditure in American history except for war—and made clear that more would be available if needed. The canal was not a private business venture but a strategic priority backed by the full resources of the American state.

More importantly, the United States exercised sovereign authority over the Canal Zone. The 1903 treaty granted the United States all rights "as if it were sovereign," and American administrators interpreted this to mean full sovereignty in practice. The Canal Zone was governed as an unincorporated territory under military administration. The chief engineer, appointed by the President, wielded dictatorial authority over the Zone. He could seize property, deport workers, ban newspapers, regulate commerce, and override any Panamanian law that conflicted with canal operations. This concentration of authority allowed rapid decision-making

and eliminated the bureaucratic delays that had plagued the French. When Goethals decided the canal needed more excavation equipment, Congress appropriated the funds within months. When he needed to relocate an entire town that sat in the future lake bed, he simply ordered it demolished and rebuilt elsewhere. The French had operated as supplicants negotiating with Colombian authorities. The Americans operated as sovereigns who recognized no authority within the Zone except their own.

II. THE ENGINEERING TRIUMPH: CONQUERING GEOGRAPHY

The actual construction of the Panama Canal between 1904 and 1914 represented one of the supreme achievements of industrial civilization. The scale was almost incomprehensible. The Americans would excavate 240 million cubic yards of earth and rock, roughly four times what the French had managed in eight years. They would build the largest dam in the world to create the largest artificial lake in the world. They would construct locks that could raise and lower ships weighing 50,000 tons through a vertical distance of eighty-five feet. They would employ 56,000 workers at the project's peak and sustain construction operations simultaneously across dozens of sites scattered over fifty miles of jungle and swamp. The logistics alone—moving men, equipment, supplies, and excavated material while maintaining railroads, housing, hospitals, and commissaries—would have broken most organizations. The Americans made it look routine.

The key to success was systematic organization under military discipline. George Washington Goethals, who took command as chief engineer in March 1907, was an Army colonel with thirty years of experience building fortifications and rivers-and-harbors projects. He approached the canal as a military campaign, dividing the work into three divisions commanded by subordinate engineers with clear authority and reporting relationships. The Atlantic Division built the massive Gatun Dam and Locks. The Central Division excavated the Culebra Cut through the Continental Divide. The Pacific Division built the locks at Pedro Miguel and Miraflores. Each division operated with substantial autonomy but reported daily to Goethals, who coordinated operations and resolved conflicts with the efficiency of a general commanding an army.

The Culebra Cut was where the canal would be won or lost. This nine-mile section carved through the spine of the Continental Divide required excavating through mountains that rose four hundred to six hundred feet above sea level. The French had struggled for eight years with the Cut and made minimal progress against landslides that refilled excavations as quickly as workers could dig them. The Americans approached the problem with overwhelming force. Goethals deployed 6,000 workers to the Cut, equipped them with 102 railroad-mounted steam shovels, and organized them into three eight-hour shifts that worked around the clock. The shovels bit into the volcanic rock, loaded it into railcars, and sent it away on a rail system that expanded to 160 miles of track within the Cut alone. At peak operations, a loaded train left the Cut every ninety seconds.

Yet even American power and efficiency could not prevent landslides. The Cut's walls were unstable volcanic soil that became saturated during the rainy season and collapsed under its own weight. The worst slide, at Cucaracha, occurred in October 1907 and buried excavated areas under millions of cubic yards of mud that had to be dug out again. More slides followed—in 1912, a massive slide forced Goethals to widen the Cut and excavate millions more cubic yards than originally planned, delaying completion by months. The frustration was immense. Workers would excavate an area, railway crews would extend tracks into it, and then overnight the entire section would slide back into the Cut, burying tracks and sometimes equipment. Goethals responded with grim determination: excavate it again, widen the slopes, keep digging. By the time the Cut was finished, the Americans had excavated 96 million cubic yards from this nine-mile section alone—roughly equal to all the excavation the French had accomplished in eight years across the entire canal route.

The Gatun Dam and Locks represented engineering on a scale unprecedented in human history. The dam stretched a mile and a half across the Chagres River valley and rose 105 feet above the riverbed. It would impound the Chagres behind a wall of earth and rock, creating Gatun Lake, which would cover 164 square miles and become the largest man-made lake in the world. The dam was built by hydraulic fill—pumping slurry of earth and water into place and allowing it to settle—a technique that many engineers considered dangerously unstable for a structure that would hold back trillions of gallons of water. Goethals proceeded anyway, and the dam held.

The Gatun Locks were even more ambitious. Three chambers would raise ships eighty-five feet in three steps, each chamber measuring 1,000 feet long by 110 feet wide. The lock gates weighed 730 tons each and stood sixty-five feet tall. They were operated by electric motors—itself a revolutionary application of recent technology—and could open or close the massive gates in two minutes. The concrete walls of the locks were sixty feet thick at the base, reinforced with steel, and built to withstand ships ramming them at full speed. The Americans poured 4.4 million cubic yards of concrete for the locks and related structures, more concrete than had been used in any previous construction project in history.

The Pacific locks at Pedro Miguel and Miraflores completed the system. Ships entering from the Pacific would be raised thirty-one feet at Miraflores to a small intermediate lake, then raised another twenty-three feet at Pedro Miguel to reach Gatun Lake. They would transit the lake, cross the Culebra Cut, and descend through the three chambers at Gatun to reach the Atlantic. The entire passage from ocean to ocean would take eight to ten hours, compared to the weeks or months required to sail around South America. For global shipping, this represented a revolution comparable to the opening of the Suez Canal forty-five years earlier.

Construction required importing vast quantities of material and equipment. The United States shipped 30,000 tons of dynamite to blast through rock. American steel mills fabricated 55,000 tons of steel for lock gates, machinery, and reinforcement. Cement manufacturers supplied 4.4 million barrels of cement. General Electric built electric locomotives to haul ships through the locks, an innovation that allowed precise control of massive vessels in confined spaces. The

entirety of American industrial capacity stood behind the project, producing whatever Goethals needed and shipping it to Panama on a scale that dwarfed all previous construction efforts.

The human cost, though lower than the French experience, remained substantial. Approximately 5,600 workers died during American construction between 1904 and 1914, bringing the total death toll from French and American attempts to nearly 28,000. The causes of death during the American era were primarily accidents rather than disease. Steam shovels crushed workers, landslides buried them, dynamite blasts killed them, and machinery mangled them. The work was dangerous, the pace was relentless, and safety standards were minimal by modern measures. Yet workers came willingly because the wages—though stratified by race—exceeded what most could earn elsewhere, and the death rate, though appalling, was far lower than during the French era when disease killed indiscriminately.

III. THE RACIAL CASTE SYSTEM: GOLD ROLL AND SILVER ROLL

The Panama Canal was built on a foundation of rigid racial hierarchy enforced with the systematic discrimination characteristic of Jim Crow America. The Americans imported not just their engineering expertise and industrial capacity but also their racial caste system, imposing it on the Canal Zone with the force of law and custom. Every aspect of life in the Zone was segregated by race—housing, hospitals, schools, commissaries, even water fountains. The pay system institutionalized this hierarchy through a mechanism so transparently discriminatory that it became the defining feature of American canal administration: the gold roll and the silver roll.

Workers paid in gold—American citizens, almost exclusively white—earned two to three times what workers paid in silver earned for equivalent work. The distinction was ostensibly about currency, but everyone understood it was about race. White American workers were on the gold roll. Black workers from the Caribbean, skilled European workers, and virtually all non-Americans were on the silver roll regardless of skill level. The pay gap was dramatic and deliberate. A white American crane operator on the gold roll earned $300 per month. A Black Jamaican crane operator performing identical work earned $60-75 per month in silver. The differential applied at every skill level. White foremen earned $200-300 monthly, Black foremen $50-75. The system was designed to maintain white supremacy and ensure that American workers benefited disproportionately from a project that employed tens of thousands of non-American laborers.

Housing segregation was equally rigid. White American families lived in comfortable wooden houses in communities like Balboa and Cristobal, with screened windows, electric lights, and access to commissaries selling American goods at subsidized prices. These towns resembled middle-class American suburbs transplanted to the tropics. The houses had front porches, small yards, and were maintained by the canal administration. Black workers lived in barracks—long wooden structures with no privacy, minimal ventilation, and communal facilities. The barracks

were overcrowded, hot, and located near work sites where noise and industrial activity continued around the clock. No Black worker, regardless of skill or position, could live in the white communities. The line was absolute.

Healthcare followed the same pattern. The canal administration built hospitals throughout the Zone, but they were segregated. Gorgas's successful disease control campaign applied to everyone—mosquitoes did not respect racial boundaries, and controlling disease required treating all workers—but the quality of care varied dramatically by race. White American workers were treated at modern hospitals in Ancon and Colon that would have been considered excellent by stateside standards. Physicians were American-trained, equipment was current, and facilities were clean. Black workers were treated at separate facilities that were functional but inferior—fewer doctors per patient, less equipment, more crowded wards.

The commissaries, which sold food and supplies to canal workers, operated two systems. Gold roll commissaries carried American products—canned goods, fresh meat, bread, dairy products—at subsidized prices available only to gold roll workers. Silver roll commissaries carried cheaper goods—rice, beans, dried fish—at higher prices. A white American family could buy a week's groceries for $5-7 at the gold commissary. A Black Jamaican family would spend $8-10 for inferior goods at the silver commissary. The price discrimination was deliberate, designed to maximize the wage differential's impact. Even when Black workers earned decent wages by Caribbean standards, the higher cost of living in the segregated silver system reduced their real income.

Schools were segregated from the beginning. White American children attended well-funded schools with trained teachers, modern textbooks, and facilities comparable to schools in the United States. The curriculum emphasized English, American history, and preparation for eventual return to the United States—no one imagined white families would remain permanently in Panama. Black children of West Indian workers attended separate, underfunded schools if they attended at all. Many did not, as education was not compulsory for silver roll families. The schools that existed for Black children were overcrowded, poorly supplied, and taught by teachers with minimal training. The message was clear: white children were being educated for skilled positions and professional careers, while Black children were being prepared for manual labor at best.

The racial hierarchy extended to every social interaction. White Americans and Black workers did not eat together, did not socialize, and did not share public spaces. Restaurants, clubs, and recreational facilities were segregated. The Panama Canal Zone had baseball leagues, but they were divided by race. White Americans played in well-maintained fields with uniforms and equipment provided by the canal administration. Black workers organized their own leagues with minimal support. The YMCA operated segregated facilities. Churches were segregated. Even the trains that transported workers to and from job sites had separate cars for gold and silver roll passengers.

The system was justified by a racist ideology that viewed Black workers as inherently inferior and white Americans as naturally suited for supervisory roles. Canal administrators openly

stated that Black workers from the Caribbean were employed because they could tolerate tropical heat better than whites and would work for lower wages. The racial theories that undergirded American Jim Crow segregation were applied wholesale to the Canal Zone. Blacks were considered lazy, unintelligent, and requiring constant white supervision. That thousands of skilled Black workers operated complex machinery, maintained railroads, and performed dangerous tasks requiring judgment and expertise did not challenge these assumptions. The ideology was impervious to evidence.

Yet the Black workers, predominantly from Jamaica, Barbados, Martinique, and other Caribbean islands, were essential to the canal's construction. They comprised roughly 85 percent of the total workforce. The Americans recruited approximately 50,000 West Indian workers between 1904 and 1914, replacing those who died, quit, or were fired. These men excavated the Culebra Cut, built the dams, poured concrete for the locks, laid railroad track, operated steam shovels, and performed every task necessary to build the canal. They were skilled craftsmen—carpenters, masons, machinists, electricians—who had learned trades in the Caribbean or during previous employment with British railroad projects. They worked twelve-hour days in brutal heat, endured systematic discrimination, and died in landslides and industrial accidents at rates far exceeding white casualties. They made the canal possible.

The irony was bitter. The United States presented the Panama Canal as a triumph of American engineering and a demonstration of superior civilization. President Theodore Roosevelt visited in 1906 and declared it proof of American greatness. Yet the canal was built primarily by Black workers from the Caribbean who were denied basic human dignity and paid a fraction of what white Americans earned for identical work. The triumph was real—the canal was completed on time and under budget—but it was achieved through exploitation and segregation that replicated the worst aspects of American racial oppression.

The West Indian workers understood this perfectly. They organized mutual aid societies, churches, and fraternal organizations to provide support systems the canal administration denied them. They protested wage discrimination, though protests were suppressed. Some left when they could, though jobs in the Caribbean paid even less. Most stayed, sent money home to families, and endured discrimination because the alternative was worse. After construction ended in 1914, approximately 30,000 West Indian workers remained in Panama, creating a substantial Afro-Caribbean population that would become a permanent feature of Panamanian society. Their descendants would face continued discrimination from both American administrators in the Canal Zone and Panamanian elites who viewed them as foreigners despite their residence and contributions.

IV. THE CANAL ZONE AS AMERICAN COLONY

The completion of the Panama Canal in August 1914 marked the beginning of an extraordinary experiment in colonial administration. The United States had created a sovereign territory inside

a nominally independent nation, administered it as an unincorporated possession like Puerto Rico or Guam, populated it with American civilians and military personnel, and governed it under American law with no meaningful input from Panama. The Canal Zone was 553 square miles of American sovereignty carved through the heart of Panama—ten miles wide and fifty miles long, stretching from the Caribbean to the Pacific. It had its own government, police, courts, post offices, and schools. American flags flew throughout the Zone. Signs were in English. The currency was the U.S. dollar. For all practical purposes, the Canal Zone was American territory, and the fact that it existed inside another country was treated as a minor technicality.

The Zone's government structure replicated colonial administration worldwide. A governor, appointed by the U.S. President, exercised dictatorial authority over the territory. He was typically a military officer, often the same officer who had served as chief engineer during construction. George Goethals transitioned seamlessly from chief engineer to first governor of the Canal Zone, serving from 1914 to 1917. The governor controlled all aspects of Zone governance: he appointed judges, police chiefs, and department heads; he regulated commerce, construction, and residence; he could deport anyone deemed undesirable; he answered only to the President and Congress. There was no elected legislature, no democratic governance, no pretense of representative government. The Zone was administered as what it was: a colonial possession.

Approximately 50,000 to 60,000 people lived in the Canal Zone between 1920 and 1980, with the population fluctuating based on military deployments and canal operations. The composition was heavily American. Military personnel and their families comprised perhaps 20,000 at any given time, spread across fourteen bases that occupied substantial portions of the Zone. Civilian employees of the Panama Canal Company—the government corporation that operated the canal—numbered 25,000 to 30,000. Most were American citizens working in skilled positions: pilots who guided ships through the canal, lock operators, engineers, administrators, clerks, teachers, nurses. The remaining population consisted of West Indian workers and their descendants who had remained after construction ended, living in segregated communities within the Zone.

The Americans created self-contained towns that replicated middle-class American life with meticulous attention to detail. Balboa, on the Pacific side, became the administrative capital and most American town in the Zone. It had tree-lined streets, parks, a high school, a library, a theater showing American films, officers' clubs, churches, and commissaries stocked with goods imported from the United States. Residents shopped in stores that accepted only U.S. dollars, attended schools that taught American curriculum and prepared students for American colleges, and lived in a society that followed American customs and celebrated American holidays. Cristobal, on the Atlantic side, served similar functions. These communities were designed to make Americans comfortable, to minimize the sense that they were living abroad.

The contrast with Panama just beyond the Zone boundary was stark and deliberate. Panamanians could see the well-maintained American towns, the comfortable houses, the prosperous shops. They could see American children playing in parks, American families

enjoying facilities that Panamanians could not access. The Zone had paved roads when Panama City's streets were often mud. The Zone had reliable electricity when Panama suffered frequent blackouts. The Zone had modern sewage systems when Panama City relied on outdated infrastructure. The visible inequality generated resentment that grew more intense over decades. Panamanians worked in the Zone—as laborers, domestics, service workers—but lived outside it in communities that lacked the resources and infrastructure the Americans enjoyed. The boundary between Zone and Panama was a boundary between first-world prosperity and third-world poverty, visible daily to everyone.

The fourteen U.S. military bases in the Canal Zone represented the largest American military presence anywhere outside the continental United States. Fort Clayton housed the U.S. Army South, commanding American forces throughout Latin America. Howard Air Force Base was one of the largest U.S. Air Force installations in the hemisphere. Naval Station Rodman served the Atlantic and Pacific fleets. The bases employed 10,000 to 15,000 military personnel and their families, with numbers fluctuating based on global deployments and regional crises. The military presence served multiple purposes: defending the canal against attack, training for jungle warfare, conducting intelligence operations throughout Latin America, and demonstrating American power to any nation that might challenge U.S. hegemony in the region.

The canal itself functioned with impressive efficiency from the day it opened. On August 15, 1914, the cargo ship SS Ancon became the first vessel to transit the canal under its own power, completing the passage in nine hours and forty minutes. Tolls were set based on ship tonnage, typically ranging from $1,000 to $10,000 per transit. The canal could accommodate ships up to 1,000 feet long and 106 feet wide, though most vessels in 1914 were substantially smaller. Traffic built gradually as shipping companies adjusted routes to take advantage of the new passage. By 1920, approximately 2,000 ships transited annually. By 1930, the number had risen to 5,000. The canal's economic impact was transformative—it cut 8,000 miles from the voyage between New York and San Francisco, weeks from the journey between Europe and Asia's west coast.

Revenue flowed to the United States, not Panama. The Panama Canal Company, a U.S. government corporation, collected all tolls and operating revenues. Annual toll revenues reached $10-15 million by the 1920s, rising to $20-30 million by the 1950s. Panama received its annual payment of $250,000 as specified in the 1903 treaty—a sum so absurdly small compared to canal revenues that it became a source of bitter resentment. Panamanians watched tens of millions of dollars flow through their territory annually and received less than one percent. The annuity was raised to $430,000 in 1936 and to $1.9 million in 1955, but even these increases did not approach a fair share of the economic value the canal generated.

The Americans justified their control with a combination of racist paternalism and strategic necessity. The paternalism held that Panamanians were incapable of operating something as complex as the canal and that American administration was a benevolent service to a less developed nation. Admiral Harry Harwood, governor of the Canal Zone from 1960 to 1962, expressed this view bluntly: "The Panamanians couldn't run a small grocery store, much less the Panama Canal." The strategic argument was that the canal was vital to American defense

and could not be entrusted to a foreign power, even a nominally friendly one. Both arguments ignored the fundamental injustice: the United States had seized territory from another nation through imperial coercion and administered it as a colony while proclaiming Panama's independence.

The Zonians—Americans born and raised in the Canal Zone—developed a distinct identity and viewed the Zone as their homeland. Many were second or third generation, descendants of workers who had come during construction and stayed. They attended American schools, played American sports, celebrated American holidays, and grew up speaking English in an English-speaking society. Yet they lived surrounded by Spanish-speaking Panama, a country many Zonians regarded with condescension or outright hostility. To Zonians, Panama was where you went to buy cheap goods or employ domestic servants, not a real country deserving respect. This attitude poisoned relations and made Zonians some of the most vocal opponents of treaty renegotiation when Panamanian nationalism demanded change in the 1960s and 1970s.

The Canal Zone would last eighty-five years, from 1914 to 1999, making it one of the longest-lasting colonial territories of the twentieth century. Its existence violated the principle of sovereignty that supposedly governed international relations after World War I. The League of Nations and later the United Nations declared colonialism illegitimate, yet the United States maintained sovereign control over territory inside an independent nation until the end of the twentieth century. The Zone survived because American power made it possible, because Panamanian weakness made resistance futile, and because the canal's strategic value to the United States was so great that no president would voluntarily surrender control until Jimmy Carter finally concluded that maintaining the Zone damaged American interests more than returning it would.

V. ELITE PROSPERITY THROUGH INTERMEDIATION

The Panamanian elite who had collaborated with the 1903 coup prospered beyond their most optimistic projections. The canal transformed Panama's economy from stagnant backwater to vital commercial hub, generating opportunities for wealth accumulation that had not existed since the Spanish treasure fleet era. Yet the elite's wealth came not from owning the canal or controlling its operations—the Americans monopolized those—but from intermediating between American power and Panamanian society. They provided services, sold supplies, employed workers, managed real estate, and created businesses that captured rents from canal-related commerce. This was the same pattern established during Spanish colonial rule: the elite prospered by managing flows of goods and people, not by producing wealth directly.

Banking became the foundation of elite fortunes. Panama's unique status as a dollarized economy—using the U.S. dollar as official currency while maintaining nominal sovereignty—attracted foreign banks and created opportunities for local financiers. The elite

families who had dominated commerce during the Colombian era transitioned into banking during the early years of American occupation. They established banks that served canal workers, provided credit to businesses supplying the canal, and managed the financial flows between the Canal Zone and Panama proper. By the 1920s, Panama City had emerged as a regional banking center, with institutions that would grow into the offshore banking haven that defines modern Panama.

The Arias family exemplified this transition. Prominent during the Colombian era as merchants and landowners, they became bankers and politicians under American hegemony. Harmodio Arias became president in 1932. His brother Arnulfo Arias would be elected president three times between 1940 and 1968, though the United States removed him each time when his nationalism threatened American interests. The Arias family's wealth came from banking, commerce, and real estate near the Canal Zone boundary, where land values skyrocketed as the canal spurred urban development.

Commercial intermediation was equally lucrative. The canal employed tens of thousands of workers who needed food, clothing, tools, and housing. American commissaries served Zone residents, but Panamanians working in the Zone or living outside it needed supplies from Panamanian merchants. Elite families who controlled import-export businesses, owned warehouses, and operated retail establishments captured substantial rents. They imported American and European goods, marked them up, and sold them to workers whose wages, while low by American standards, exceeded what they could earn elsewhere in Panama. The commercial elite also sold Panamanian agricultural products to the Zone—fresh fruit, vegetables, meat—creating a captive market that enriched producers and middlemen.

Real estate development around the Zone boundary generated enormous wealth for landowners. Panama City expanded rapidly from a town of 15,000 in 1903 to a city of 100,000 by 1930. Land that had been worthless in 1903—swamps, marginal agricultural plots—became valuable as the city grew. Elite families who owned land near the Zone sold parcels for residential and commercial development at prices inflated by the canal's economic stimulus. The pattern accelerated over decades. By the 1950s, Panama City's skyline included modern buildings that would not have been out of place in Miami or Los Angeles, financed by elite families whose wealth derived ultimately from proximity to American power.

The service economy created opportunities for elite enrichment through labor intermediation. Panamanians worked in the Canal Zone as laborers, domestics, cooks, cleaners, and service workers, but they were hired through Panamanian contractors who took a cut of their wages. Elite-owned companies contracted with the Panama Canal Company to provide cleaning services, food service, construction labor, and maintenance work. These companies paid workers minimal wages and pocketed the difference between what the Canal Company paid for the contract and what workers received. The system resembled colonial labor exploitation elsewhere—a comprador class intermediating between foreign capital and local labor, extracting rents at every stage.

Political office became a mechanism for wealth accumulation as elite families rotated through the presidency and cabinet positions. Panama's government controlled customs revenues, infrastructure contracts, and regulatory authority over businesses operating outside the Zone. Presidents and ministers steered contracts to family businesses, granted import licenses to allies, and extracted bribes from those seeking government favor. The system was corrupt but stable. Elections were often fraudulent—votes were bought, ballot boxes were stuffed, opposition was suppressed—but they maintained a democratic facade that satisfied American requirements. The United States wanted a compliant Panamanian government, not necessarily a democratic one, and was willing to tolerate corruption as long as it did not threaten canal operations.

The elite's prosperity was entirely contingent on American hegemony. Without the canal and the Zone, Panama's economy would have remained as stagnant as it had been during the late Colombian period. Elite wealth depended on proximity to American power—geographically, economically, and politically. Families that aligned with American interests prospered. Those that challenged them were removed, sometimes through American intervention, sometimes through elite-coordinated coups. The pattern that emerged was clear: the Panamanian elite would serve as junior partners in American hegemony, capturing rents from intermediation while accepting that ultimate power rested with Washington.

By 1930, approximately one to two hundred families controlled the majority of Panama's wealth outside the Canal Zone. These families were concentrated in Panama City and Colon, the cities at either end of the canal. They intermarried, creating a tight oligarchy with overlapping business interests and family connections. The Arias family was connected to the Arosemena family through marriage. The Boyd family was allied with the Guardia family. These connections created networks of mutual support and information sharing that allowed the elite to coordinate economic and political strategies. When the United States needed a compliant president, the elite families agreed on an acceptable candidate. When business opportunities emerged, they divided them among themselves with minimal competition.

The masses—Panamanians outside the elite—benefited modestly from the canal's presence but remained poor by American standards. Workers in the Zone earned more than agricultural laborers in Panama's interior, but less than West Indian workers and far less than white Americans doing equivalent work. Urban workers outside the Zone faced high living costs inflated by demand from canal workers and limited housing supply. Rural Panama, away from the Zone's economic influence, remained impoverished and isolated. The elite captured the majority of canal-generated wealth, just as they had captured the majority of treasure-trade wealth during the Spanish era.

VI. ASSESSMENT: THE PATTERN ESTABLISHED (1903-1914)

The eleven years between Panama's creation and the canal's completion established patterns that would define Panama-United States relations for the next century. The most fundamental was that Panama's independence was conditional and its sovereignty was fictional. The country existed because the United States wanted a canal and found creating a compliant nation easier than negotiating with Colombia. From birth, Panama was a client state whose primary function was facilitating American strategic interests. The 1903 treaty granted the United States sovereignty over the Canal Zone "in perpetuity"—forever—making clear that Panamanian independence was subject to permanent American territorial control.

The Canal Zone as American colony inside a nominally independent nation was an arrangement almost without precedent in modern international relations. The British Empire controlled the Suez Canal through Egypt, but Egypt was a protectorate and Britain made no pretense of Egyptian sovereignty. The United States controlled the Panama Canal while simultaneously recognizing Panama as independent, creating a legal and political fiction that satisfied American desire to avoid appearing overtly colonial while ensuring effective control. The fiction fooled no one. Panamanians saw American power daily in the Zone's visible prosperity, the military bases, the American flag flying over sovereign Panamanian territory. The Zone was American in everything except formal annexation, and the distinction was meaningless in practice.

The racial caste system imposed on the Canal Zone demonstrated that American imperialism exported not just economic power but also domestic racial oppression. The gold roll and silver roll system institutionalized wage discrimination based on race, replicating Jim Crow segregation in a tropical setting. The system was economically inefficient—paying workers less for identical work based solely on race reduced incentives for skill development and created resentment—but it was politically essential to maintaining white American support for the canal project. White workers would not tolerate equality with Black workers, and American administrators structured the entire enterprise to privilege whiteness. The irony that the canal was built primarily by despised Black workers from the Caribbean, who were essential to its success yet denied basic dignity, apparently escaped most contemporary observers.

The engineering triumph was real and deserves recognition separate from its imperial context. The Americans solved technical problems that had defeated the French, controlled diseases that had killed twenty-two thousand workers, and completed the largest construction project in human history to that point. The canal functioned as designed from opening day, required relatively little maintenance given its complexity, and transformed global shipping patterns exactly as advocates had predicted. Goethals and his subordinates demonstrated exceptional organizational competence, Stevens revolutionized excavation techniques, and Gorgas proved that tropical disease could be controlled through systematic mosquito elimination. These achievements were genuine.

Yet the engineering triumph served imperial purposes and was achieved through imperial methods. The canal was not built to benefit Panamanians but to serve American strategic and commercial interests. The concentration of sovereign authority in the chief engineer and later the Zone governor was colonial administration by another name. The racial discrimination was

American Jim Crow transported wholesale. The 5,600 workers who died during construction were overwhelmingly non-American, their deaths accepted as necessary costs of a project that would primarily benefit the United States. The canal was a triumph of American power, not a triumph of human cooperation or international development.

The Panamanian elite's prosperity through intermediation established the economic pattern that persists to 2025. Elite wealth would derive not from controlling productive assets—the canal was American-owned, the Zone was American-governed—but from managing flows between American power and Panamanian society. Banking, commerce, real estate, and labor intermediation became the elite's economic base. This was the same pattern from the Spanish colonial era: elite families prospered by managing transit trade, not by producing goods. The continuity across three centuries of Spanish rule, eighty-two years of Colombian control, and now American hegemony was remarkable. Geography had determined that Panama would be a transit route. History had determined that external powers would control it. Economics had determined that local elites would prosper by serving whoever controlled it.

The three monopolies that structured Panamanian society in 1914 reflected this subordinate integration with American power. The wealth monopoly remained concentrated in one to two hundred elite families who controlled banking, commerce, and real estate near the Zone. But their wealth was derivative—it depended entirely on the canal's operations, which the Americans controlled. Remove American power and Panamanian elite wealth would collapse, just as it had collapsed when the California Gold Rush ended in 1869 and the French canal went bankrupt in 1889.

The violence monopoly was thoroughly American. The United States maintained fourteen military bases in the Zone with 10,000 to 15,000 troops, more military power than Panama could possibly muster. The Canal Zone police, while technically under Zone government rather than military control, were backed by American military force and could call on troops if needed. Panama had a small police force and would not develop a serious military until the National Guard was created in the 1950s. Even then, Panamanian forces existed at American sufferance and could be crushed if they challenged American interests. The 1989 invasion would demonstrate this reality with brutal clarity.

The information monopoly was more complex. Literacy in Panama was rising—perhaps 40 to 50 percent by 1920—and newspapers existed outside elite control. Labor organizations were forming and would become more assertive in the 1920s and 1930s. But elite families still owned the major newspapers, controlled access to education through their dominance of government policy, and shaped public discourse through their political and economic power. The Americans controlled information within the Zone completely—Zone newspapers were American, schools taught American curriculum, and Panamanian perspectives were excluded. The information environment was thus split: the Zone was an American information bubble, while Panama proper was gradually developing alternative voices that would challenge elite control in coming decades.

Panama in 1914 was independent in name only. The country had been created by American imperial power, its most valuable territory was controlled by the United States in perpetuity, its economy was dependent on canal operations it did not manage, and its elite prospered by serving American interests. The Canal Zone was a constant reminder that Panama's sovereignty was conditional. When Panamanian presidents became too nationalist, the United States removed them—this would happen to Arnulfo Arias three times between 1940 and 1968. When Panamanians protested American control, the protests were suppressed. The pattern would continue until Omar Torrijos negotiated new treaties in 1977, and even then, the United States would retain the right to intervene militarily to defend canal neutrality, a provision that Presidents would invoke to justify continued involvement in Panamanian affairs.

The fundamental question raised by Panama's creation and the canal's construction was whether a small state with strategic importance could ever be truly sovereign. The answer, demonstrated clearly between 1903 and 1914, was no. Geography had made Panama strategically vital. American power ensured that vital meant controlled. The Panamanian elite had chosen collaboration over resistance, calculating correctly that they would prosper more as American clients than as Colombian subjects or impoverished independents. This calculation would prove correct in material terms—the elite became wealthy—but it locked Panama into subordination that would last a century and arguably persists to 2025, as Trump's threats to "take back the canal" demonstrate. A nation created by a superpower for that superpower's purposes could never fully escape its subordinate origins.

END OF PART 3

To be continued in Part 4: Canal Zone Era and Rising Nationalism (1914-1968)

Pattern validated: United States succeeded where France failed through state power, disease control, and engineering excellence, but built canal using Jim Crow racial hierarchy that exploited 50,000+ Caribbean workers. Canal Zone became American colony (1914-1999) inside "independent" Panama. Elite prospered through intermediation (banking, commerce, real estate) while Americans monopolized violence (14 bases) and controlled strategic asset. Created as imperial protectorate, Panama would never achieve genuine sovereignty—pattern established 1903-1914 persists to 2025 when Trump threatens to reclaim canal. Next: Nationalist resistance (1940s-1960s), Torrijos era (1968-1981), treaty negotiations (1977).

PANAMA CASE STUDY - PART 4

Elite Power Under Extreme External Constraint (1501-2025)

PART 4: CANAL ZONE ERA AND RISING NATIONALISM (1914-1968)

"Living Next to Empire: When Your Country's Heart Is Foreign Territory"

For fifty-four years between the canal's completion in 1914 and Omar Torrijos's coup in 1968, Panama existed in a condition of sustained humiliation unique among nominally independent nations. The Canal Zone was not a distant colonial possession or overseas territory—it was a ten-mile-wide stripe of American sovereignty running through the geographic and economic heart of the country. Every day, Panamanians could see American prosperity inside the Zone and Panamanian poverty outside it. They watched American children attend excellent schools while Panamanian schools crumbled. They saw well-maintained American infrastructure while Panama City's streets flooded during rainy season. They worked in the Zone for wages far below what Americans earned for identical work, then returned to homes where American military aircraft flew overhead and American warships dominated the harbors. The psychological impact was corrosive. Panama was independent in international law, but the daily reality was subordination so visible and comprehensive that it generated nationalist resentment far more intense than in colonies where the imperial presence was geographically separate.

Yet the Panamanian elite who had collaborated with the 1903 coup and prospered from canal-related commerce showed little interest in challenging American hegemony during the first decades after construction ended. They had calculated correctly that serving American interests was more profitable than opposing them. The elite controlled Panama's government through fraudulent elections, distributed patronage to maintain political machines, and extracted wealth from the canal economy through banking, commerce, and real estate. When nationalist politicians emerged to challenge this arrangement—most prominently Arnulfo Arias, who was elected president three times between 1940 and 1968—the United States removed them, often with elite collaboration. The pattern was consistent: elite collaboration ensured American control, American control ensured elite prosperity, and nationalist challenges were suppressed through intervention.

The contradiction intensified after World War II as anti-colonial movements achieved independence across Asia and Africa while Panama remained visibly subordinate. Student movements emerged in the 1940s and 1950s demanding sovereignty over the Zone, higher annuity payments, and an end to racial discrimination in Zone employment. The protests escalated through the 1950s and climaxed in January 1964 when American troops fired on Panamanian students attempting to raise their flag in the Canal Zone, killing twenty-one and

wounding more than five hundred. The Flag Riots shocked both nations and forced the United States to acknowledge that maintaining the Zone in its colonial form was becoming unsustainable. Yet negotiations for treaty revision stalled throughout the 1960s as American conservatives insisted on permanent control and Panamanian nationalists demanded complete sovereignty. The deadlock would only be broken when a military coup brought Omar Torrijos to power in 1968, establishing the first Panamanian government willing and able to directly challenge American hegemony.

I. ELITE COLLABORATION AND AMERICAN INTERVENTION (1914-1932)

The Panamanian political system that emerged after canal completion was democratic in form but oligarchic in substance. Elections were held regularly, presidents served constitutional terms, and the National Assembly convened to pass laws. But the electoral process was thoroughly corrupted by fraud, intimidation, and American interference. The elite families who controlled banking and commerce also controlled politics, rotating the presidency among themselves while ensuring that no genuinely nationalist government could take power. The United States monitored elections closely and intervened whenever outcomes threatened canal operations or American strategic interests. Between 1914 and 1932, American troops landed in Panama at least seven times to "restore order," a euphemism for suppressing challenges to the elite-American alliance.

The interventions followed a consistent pattern. When popular protests threatened elite control or nationalist politicians gained support, the Panamanian president would request American intervention or the United States would dispatch troops on its own authority under the 1903 treaty's provision allowing military action "to maintain order." American troops would occupy key locations, suppress protests, and remain until the crisis passed. The message was unmistakable: the United States would not tolerate political developments that challenged American control of the canal or threatened the compliant elite governments that facilitated American dominance.

The 1918 intervention was typical. Protests erupted in Panama City against President Ramon Valdés after accusations of electoral fraud. Students and workers marched demanding his resignation. Violence escalated when police fired on protesters. President Valdés, facing potential overthrow, requested American intervention. Within hours, American troops from the Canal Zone occupied Panama City's key government buildings, dispersed protesters, and restored Valdés to effective control. The occupation lasted three weeks. No Americans died. Approximately fifteen Panamanians were killed. The intervention demonstrated that Panama's government existed at American sufferance and could be propped up by American force whenever elite control was threatened.

The 1925 intervention occurred during a rent strike by urban tenants in Panama City and Colón. Working-class Panamanians, squeezed by inflation and inadequate wages, refused to pay rent on substandard housing owned by elite landlords. The strike threatened elite property income and raised the specter of class-based mobilization. President Rodolfo Chiari, himself from an elite family, deployed police to evict strikers forcibly. Violence erupted. American troops landed, ostensibly to protect American property in Panamanian cities adjacent to the Zone but actually to bolster Chiari's government against working-class resistance. The rent strike collapsed under combined police and military pressure. Elite property rights were preserved, and the lesson was reinforced: challenges to elite economic power would be met with force backed by American intervention.

The political economy that sustained elite dominance was relatively simple. Elite families controlled import-export commerce, capturing profits from goods flowing to and from the Zone. They owned banks that financed canal-related businesses and charged interest on loans to workers and small merchants. They controlled urban real estate and charged rents that consumed much of workers' wages. They dominated agricultural production near the canal corridor, supplying food to Zone commissaries and Panamanian markets. These economic positions translated into political power through patronage networks and electoral fraud. Elite families financed political campaigns, controlled vote counting, and distributed government jobs to supporters.

Elections during this period were theatrical performances with predetermined outcomes. The Liberal and Conservative parties—both controlled by elite families—alternated in power through elections that were transparently fraudulent. Ballot boxes were stuffed, opposition voters were intimidated, and results were announced before counting finished. The charade maintained the appearance of democracy that the United States required, while ensuring that actual power remained with families whose interests aligned with American hegemony. Voter participation was low because most Panamanians understood that elections changed nothing fundamental. The elite would remain in control regardless of which faction won.

American interference in elections was sometimes subtle and sometimes overt. The United States preferred compliant presidents and communicated these preferences to elite families through diplomatic channels and direct meetings between American ambassadors and Panamanian political leaders. When preferred candidates won, the United States recognized the results immediately and provided support. When nationalist candidates showed strength, the United States made clear that their victory would be unacceptable. The 1932 election was illustrative. Harmodio Arias, a moderate nationalist who wanted to renegotiate the 1903 treaty, won the presidency despite American opposition. The United States grudgingly accepted his victory but made clear that substantive treaty changes were impossible. Arias served his term but achieved little beyond minor increases in the annual annuity, demonstrating the limits of nationalism within the constraints of American power.

The economic stagnation of Panama outside the canal corridor was striking. The Zone generated enormous wealth—tolls reached $20-30 million annually by the 1920s—but this wealth remained concentrated in American hands and elite intermediaries. Rural Panama, away

from the canal's economic influence, remained impoverished. Agricultural productivity was low due to poor soil, inadequate infrastructure, and land ownership patterns that favored large estates over smallholder farming. Manufacturing barely existed because the small domestic market could not support industry and the Zone's commissaries sold imported American goods at prices Panamanian manufacturers could not match. The result was an economy dependent on canal-related services with minimal productive capacity outside the Zone's shadow.

The population grew slowly during this period, reaching approximately 500,000 by 1930. The demographic composition reflected the legacy of canal construction: roughly 60 percent were mestizo (mixed Spanish and Indigenous ancestry), 15-20 percent were Afro-Panamanian (descendants of West Indian canal workers), 10-15 percent were white (mostly elite families of Spanish descent), and small populations of Indigenous peoples survived in remote regions. The West Indian population faced particularly severe discrimination. They were considered foreigners despite residence and contribution to the canal, excluded from political participation, and faced hostility from both elite Panamanians and American Zonians. Many remained confined to low-wage service jobs, creating an ethnic underclass that would persist for decades.

II. WORLD WAR II AND THE CANAL'S STRATEGIC APOTHEOSIS (1939-1945)

The Second World War transformed the Panama Canal from an important commercial waterway into an absolutely critical strategic asset for the Allied war effort. The canal allowed the United States to operate as a two-ocean naval power, rapidly shifting warships between Atlantic and Pacific theaters as strategic needs demanded. Without the canal, the U.S. Navy would have required twice as many ships to maintain equivalent force levels in both oceans, and the ability to concentrate forces rapidly would have been impossible. The strategic value that had justified the canal's construction was vindicated beyond any prewar projections, and the United States responded by massively expanding its military presence in Panama.

American troop levels in the Canal Zone increased from the peacetime garrison of approximately 10,000 to more than 65,000 by 1943. New bases were constructed, existing facilities were expanded, and Panama became one of the most heavily militarized territories outside actual combat zones. The expansion extended beyond the Zone boundaries as the United States pressured Panama to lease additional territory for airbases and defensive installations. Panama complied—it had no choice—and by 1943, American military facilities occupied not just the Zone but substantial areas of nominally sovereign Panamanian territory outside it.

The military buildup generated an economic boom in Panama as tens of thousands of American servicemen spent wages in Panamanian cities. Bars, restaurants, shops, and entertainment establishments proliferated in Panama City and Colón, catering to American soldiers. Elite families who owned urban real estate collected rents from businesses serving the military

market. The construction of new bases required materials and labor supplied through Panamanian contractors, creating opportunities for elite enrichment through the familiar pattern of intermediation. The war years brought prosperity to Panama's cities on a scale not seen since canal construction.

Yet the wartime relationship also intensified resentment. The American military presence outside the Zone was supposed to be temporary, limited to the war's duration. But when the war ended in 1945, the United States showed no inclination to withdraw from the additional bases or reduce troop levels to prewar norms. American negotiators pressured Panama to extend the wartime leases permanently, arguing that the Cold War with the Soviet Union required maintaining enhanced defensive capabilities. Panamanian negotiators, emboldened by nationalist sentiment that had grown during the war, refused. The resulting standoff became the first serious conflict between Panama and the United States since 1903, demonstrating that Panamanian nationalism had matured into a political force that even compliant elite governments could not entirely ignore.

The National Assembly rejected the proposed base extension in December 1947 in a rare display of nationalist defiance. Students had organized mass protests in Panama City demanding rejection, and the political cost of defying nationalist sentiment exceeded the benefits of accommodating American demands. The United States withdrew its request but made clear through diplomatic channels that Panama's refusal was noted and would have consequences. The American military presence was reduced gradually over the next several years, but not to prewar levels, and the United States retained most of the additional facilities it had constructed outside the Zone. The episode demonstrated both the growing strength of Panamanian nationalism and the continuing limits imposed by American power.

The war also accelerated urbanization and social change. Thousands of rural Panamanians migrated to cities seeking employment in the wartime boom economy. The urban working class expanded significantly, creating a larger constituency for nationalist politics and labor organization. Unions that had existed primarily among Zone workers began organizing Panamanian workers in urban industries and services. The Federación Sindical de Trabajadores was founded in 1946 and quickly became a voice for working-class demands including higher wages, better working conditions, and national sovereignty over the Canal Zone. The elite could no longer ignore urban workers as a political force, though they would resist labor demands vigorously.

III. THE EMERGENCE OF PANAMANIAN NATIONALISM (1947-1960)

The decade following World War II witnessed the transformation of Panamanian nationalism from elite political rhetoric into a mass movement with genuine popular support. The catalyst was the visible contradiction between Panama's nominal independence and its actual

subordination. The war had demonstrated the canal's strategic importance, but it had also shown Panamanians that their country existed primarily to serve American military needs. The peacetime presence of 30,000-40,000 American troops, the continued expansion of American facilities, and the daily humiliation of watching Americans enjoy privileges Panamanians were denied created conditions for nationalist mobilization on an unprecedented scale.

Students became the vanguard of nationalist protest. University students at the University of Panama, founded in 1935, were educated, politically conscious, and deeply resentful of American dominance. They organized protests demanding that Panama's flag be flown in the Canal Zone alongside the American flag, that Zone employment discrimination be ended, and that the 1903 treaty be renegotiated to restore Panamanian sovereignty. The student movement drew support from secondary school students, creating a broad youth movement that would drive nationalist politics for the next two decades.

The first major student protest occurred in 1947 when university students attempted to march into the Canal Zone to plant Panamanian flags. Zone police blocked them at the boundary, and American troops deployed to reinforce the police. The students retreated but the incident crystallized nationalist demands. If Panama was truly independent, why could its flag not fly on its own territory? The question had no satisfactory answer within the framework of American colonial control, and the United States responded by simply asserting that the Zone was American territory where Panamanian symbols were not permitted.

The protests intensified throughout the 1950s as decolonization movements achieved success across Asia and Africa. India gained independence in 1947, Indonesia in 1949, and dozens of African nations would achieve independence in the 1960s. The global context made Panama's subordination increasingly anomalous. Panamanians watched former European colonies become sovereign nations while they remained unable to exercise sovereignty over ten percent of their own territory. The comparison was humiliating and radicalized a generation of students and workers.

Arnulfo Arias emerged during this period as the embodiment of Panamanian nationalism, though his nationalism was complicated by authoritarian tendencies and problematic racial politics. Arias was a medical doctor from an elite family who had studied in the United States and Europe. He first became president in 1940 after a coup and governed for one year before being overthrown by another coup backed by the United States. The Americans removed him because his nationalist rhetoric and admiration for European fascism made him unacceptably unpredictable. He was elected again in 1949 and governed for two years before being overthrown by the National Guard with American support. He would be elected a third time in 1968 and removed after ten days when the National Guard, fearing his populism, staged a coup that brought Omar Torrijos to power.

Arias's political ideology combined genuine nationalism with reactionary social views. He demanded sovereignty over the Zone, higher annuity payments, and an end to American intervention in Panamanian politics. But he also expressed racist views toward the Afro-Panamanian population, proposing restrictions on West Indian immigration and citizenship

that resembled European fascist racial policies. His support base was primarily mestizo and white Panamanians who resented both American dominance and Afro-Panamanian presence. The contradiction between nationalism and racism would haunt Panamanian politics for decades, preventing the formation of a unified nationalist movement that could have more effectively challenged American power.

The United States responded to growing nationalism with a combination of concessions and firmness. In 1955, President Eisenhower agreed to renegotiate aspects of the 1903 treaty, resulting in the Remón-Eisenhower Treaty that increased Panama's annual annuity from $430,000 to $1.9 million and granted some concessions on employment discrimination in the Zone. The treaty also required the United States to close certain commissaries that competed with Panamanian businesses and to construct a bridge connecting Panama City to the Zone. These concessions were modest—the annuity increase was trivial compared to canal revenues exceeding $50 million annually—but they demonstrated American recognition that some accommodation was necessary.

Yet the fundamental structure of American control remained unchanged. The Zone was still American territory in perpetuity, the military bases continued operating, and the Canal Company remained under exclusive American management. The 1955 treaty modified details while preserving the colonial substance. Nationalist critics denounced it as inadequate, but elite governments accepted it as the best achievable outcome given American power. The pattern would repeat: nationalist demands for sovereignty, American concessions on peripheral issues, fundamental control preserved.

IV. THE FLAG RIOTS OF 1964: NATIONALISM TURNS VIOLENT

The conflict that had simmered for two decades exploded on January 9, 1964, in violence that killed twenty-one Panamanians and four Americans while bringing Panama and the United States closer to severing diplomatic relations than at any time since 1903. The immediate cause was a dispute over flying the Panamanian flag at Balboa High School in the Canal Zone, but the underlying cause was accumulated resentment over six decades of visible subordination. The Flag Riots, as they became known, marked the moment when Panamanian nationalism transitioned from student protests to violent confrontation and forced the United States to acknowledge that the colonial status quo could not be sustained indefinitely.

The immediate trigger was deceptively simple. In 1960, American and Panamanian governments had agreed that both nations' flags would be flown at civilian sites in the Zone. Zone Governor Robert Fleming Jr. issued an order implementing this policy in 1963, specifying that Panamanian and American flags would fly together at designated locations. But the order generated fierce resistance from Zonians who viewed the Panamanian flag on "their" territory as an unacceptable concession to nationalism. The conflict crystallized at Balboa High School

when the school board, responding to Zonian pressure, decided not to fly any flag rather than fly the Panamanian flag alongside the American flag.

On January 7, 1964, Panamanian students learned that Balboa High School had removed all flagpoles to avoid flying the Panamanian flag. This violation of the 1960 agreement infuriated Panamanian students, who saw it as deliberate provocation. On January 9, approximately 200 Panamanian students marched to Balboa High School carrying a Panamanian flag, intending to raise it alongside the American flag that was flying despite the school board's supposed policy. Zone police blocked them at the school entrance. A confrontation developed. Zonian students and adults emerged from the school, many carrying American flags. Shouting escalated. Someone grabbed the Panamanian flag. In the struggle that followed, the flag was torn.

The tearing of the flag transformed a symbolic protest into a nationalist uprising. News of the incident spread rapidly through Panama City, reaching a population already angry over decades of subordination. Within hours, thousands of Panamanians poured toward the Zone boundary, some armed with rocks and Molotov cocktails. They attacked American cars, burned American flags, and attempted to storm Zone installations. Zone police responded with tear gas and gunfire. The violence spread to Colón on the Atlantic side, where similar confrontations erupted.

The Panamanian government of President Roberto Chiari, caught between nationalist fury and American power, broke diplomatic relations with the United States on January 10. Chiari demanded immediate renegotiation of the 1903 treaty and accused the United States of aggression against Panamanian civilians. President Lyndon Johnson refused to negotiate under pressure and insisted that diplomatic relations be restored before discussions could begin. The standoff lasted three months, with both nations refusing to back down publicly while seeking diplomatic solutions through the Organization of American States.

The casualty figures documented the asymmetry of violence. Twenty-one Panamanians were killed, mostly students and young workers, shot by Zone police and American troops who deployed to suppress the riots. More than five hundred Panamanians were wounded. Four Americans died, killed by sniper fire or hit by rocks and bottles. The disparity reflected both the nature of the confrontation—Panamanians attacking American installations with improvised weapons met by professional forces with firearms—and the accumulated resentment that drove Panamanians to face lethal force in nationalist rage.

The riots demonstrated that elite collaboration with American hegemony had generated nationalist opposition that elite governments could no longer control. President Chiari was from a traditional elite family and had no desire to fundamentally challenge American dominance, but nationalist pressure forced him to take a harder line than any previous Panamanian president. The riots showed that Panama's urban population, especially students and workers, would risk death to assert sovereignty. This was new and dangerous from the American perspective, suggesting that maintaining the colonial status quo might require sustained violent repression.

American public opinion was divided. Conservatives denounced Panama as ungrateful and insisted that the United States had every right to defend its property. The Zone, they argued,

was legally American territory, and rioters who attacked it were criminals deserving of forceful response. But liberals questioned whether maintaining the Zone in its colonial form was worth the diplomatic damage and moral cost. Images of American troops firing on unarmed students generated international criticism and complicated American efforts to position itself as leader of the free world against communist authoritarianism. The United States was simultaneously condemning Soviet imperialism in Eastern Europe while maintaining colonial control over the Panama Canal Zone.

President Johnson, facing domestic pressure and recognizing that the 1903 treaty was becoming untenable, agreed in April 1964 to begin negotiations for a new treaty. The negotiations would drag on for thirteen years, complicated by American domestic politics, Panamanian instability, and fundamental disagreement over sovereignty. Conservative American senators insisted that any new treaty preserve American control in perpetuity. Panamanian nationalists demanded complete sovereignty with specific dates for American withdrawal. The gap between positions was unbridgeable in the 1960s political climate, and the negotiations stalled repeatedly.

The Flag Riots marked a turning point in Panama-United States relations. Before 1964, American control was accepted as unchangeable reality. After 1964, both nations recognized that the colonial status quo could not survive indefinitely. The question was not whether the Zone would eventually return to Panama but on what terms and timeline. American negotiators hoped to delay transfer for decades and preserve military base rights even after canal transfer. Panamanian negotiators demanded rapid transfer and complete sovereignty. The conflict would only be resolved when Jimmy Carter, facing different domestic and international pressures than his predecessors, concluded that negotiating a new treaty served American interests better than maintaining the colonial relationship.

V. ELITE FRAGMENTATION AND MILITARY ASCENDANCE (1964-1968)

The four years following the Flag Riots witnessed the collapse of the elite political system that had governed Panama since 1903 and the emergence of the military as the dominant political force. The elite families who had collaborated with American hegemony and rotated the presidency among themselves through fraudulent elections lost legitimacy as nationalism intensified. Their inability to achieve meaningful concessions from the United States through negotiation exposed their weakness. Younger military officers, observing elite failure and drawing on nationalist sentiment within the ranks, concluded that the National Guard offered a more promising vehicle for asserting Panamanian interests than the corrupt civilian governments.

The National Guard itself was an American creation, established in 1953 to replace the police force and provide internal security without creating a military force large enough to threaten

American control. American advisors trained National Guard officers, many of whom attended military schools in the United States or the Canal Zone. The Guard was designed to be professional, apolitical, and oriented toward internal security rather than external defense. For two decades it functioned as intended, suppressing labor strikes, maintaining order during elite political conflicts, and ensuring that whoever won fraudulent elections could govern.

But the Guard was also recruiting ground for a new generation of Panamanian leaders whose social origins differed from the traditional elite. Many officers came from middle-class or even working-class families, educated through military academies that provided opportunity unavailable through Panama's stratified civilian society. They had experienced American racism firsthand—Panamanian officers were treated as second-class even when trained alongside American counterparts—and many had developed nationalist convictions stronger than their commitment to elite political arrangements. By the mid-1960s, the Guard contained a substantial cohort of nationalist officers who viewed elite collaboration with contempt and saw military intervention as necessary to break the cycle of submission.

The 1964 presidential election illustrated elite political dysfunction. The election pitted Arnulfo Arias against the oligarchy's candidate in what was supposed to be another fraudulent victory for elite continuity. But Arias's nationalist appeal was so strong that rigging the election would have been transparently illegitimate even by Panama's low standards. The oligarchy allowed Arias to win, calculating that his nationalism would be constrained by American power and elite economic dominance. Arias took office in October 1968 promising to assert Panamanian sovereignty and reform the political system.

Arias lasted ten days. On October 11, 1968, National Guard officers led by Omar Torrijos and Boris Martínez staged a coup, deposing Arias before he could implement any significant policies. The coup had multiple causes. Arias had announced plans to purge the National Guard of officers he considered disloyal, threatening the careers of the conspirators. He had also antagonized the United States with nationalist rhetoric that suggested he might unilaterally abrogate the 1903 treaty or nationalize American property. The combination of threats to Guard autonomy and American interests sealed his fate.

The coup marked the end of elite civilian dominance and the beginning of military rule that would last until 1989. Torrijos emerged as the dominant figure by 1969 after outmaneuvering Martínez, who was too radical even for the nationalist officers. Torrijos was a middle-class mestizo from the interior, educated in military academies, with genuine nationalist convictions combined with pragmatic understanding of power. He would govern Panama for twelve years, negotiate the 1977 treaties that returned the canal to Panama, and establish patterns of authoritarian nationalism that would define Panamanian politics through the Noriega era.

The elite response to the coup revealed their fundamental weakness. They protested, condemned military intervention in civilian politics, and appealed to the United States for support in restoring Arias. The United States declined to intervene. American officials had grown tired of Panamanian political instability and calculated that a military government might provide more reliable governance than the chaotic elite democracy. If the military could maintain order,

suppress leftist movements, and negotiate a new treaty without revolutionary disruption, American interests would be served adequately.

Elite economic power survived the coup intact. Torrijos did not expropriate elite wealth, nationalize banks, or redistribute land. He understood that maintaining Panama's economy required elite cooperation and that radical economic transformation would trigger American intervention. Instead, he struck a bargain: the elite would retain economic dominance in exchange for accepting military political control and supporting nationalist demands for treaty renegotiation. Most elite families accepted this arrangement, recognizing that they had more to fear from popular revolution than from a military government that protected property rights while asserting nationalist rhetoric.

The military's rise demonstrated that elite collaboration with American hegemony, while profitable, had created political vulnerabilities that nationalist forces could exploit. The elite had governed through fraud and American support, providing neither effective leadership nor genuine sovereignty. When nationalism intensified after 1964, they had no response except appealing to American power—which undermined their legitimacy further. The military coup was not a revolution but a transfer of political power from civilian oligarchy to military authoritarianism, both committed to preserving capitalism and elite economic dominance while seeking to renegotiate Panama's relationship with the United States.

ASSESSMENT: THE CONTRADICTIONS OF DEPENDENT INDEPENDENCE (1914-1968)

The fifty-four years between canal completion and Torrijos's coup demonstrated the fundamental contradictions of Panama's existence as a nominally independent nation created to serve American strategic interests. The country had all the formal attributes of sovereignty—a flag, a government, a seat at the United Nations, diplomatic relations with other nations—but lacked effective control over its most valuable territory and could not make decisions contrary to American interests without risking intervention. This combination of legal sovereignty and practical subordination created psychological and political tensions that intensified over decades until they erupted in violence.

The Panamanian elite who had collaborated with American hegemony since 1903 prospered materially but paid a price in legitimacy. They became wealthy through intermediation—banking, commerce, real estate—that depended entirely on the canal's operations and American tolerance. Their political power rested on American support and fraudulent elections rather than popular consent. When nationalism emerged as a genuine mass movement after 1945, the elite had no response except repression backed by American force. The 1964 Flag Riots revealed that this system was unsustainable, that nationalist sentiment had become too strong to suppress indefinitely, and that maintaining the colonial status quo would require levels of violence unacceptable in the post-colonial international order.

The Canal Zone as permanent American colony violated the principles that supposedly governed international relations after 1945. The United Nations Charter proclaimed the equality of nations and the illegitimacy of colonialism. Dozens of former European colonies achieved independence between 1945 and 1965. Yet the United States maintained sovereign control over ten percent of Panama's territory under terms that granted American control "in perpetuity"—forever. The contradiction was obvious and generated international criticism that complicated American Cold War efforts to position itself as leader of the free world against Soviet imperialism.

The racial caste system in the Zone replicated American Jim Crow segregation in a setting where it was even more obviously unjust. At least in the American South, segregation operated within a single nation's borders, however indefensible morally. In the Zone, American segregation was imposed on another nation's territory, discriminating against that nation's citizens in favor of American colonial administrators. The gold roll and silver roll system, separate schools and hospitals, the prohibition on Panamanians living in American communities—all of this was visible daily to Panamanians who could do nothing about it except resent it and organize against it.

The emergence of nationalism as a mass movement represented the political maturation of Panamanian society. The student protests of the 1950s and early 1960s were not elite-orchestrated demonstrations but genuine popular mobilizations that expressed widely shared resentment. The Flag Riots were spontaneous eruptions that governments could not control, demonstrating that nationalist sentiment had permeated Panama's urban population beyond elite manipulation. The military coup of 1968 succeeded because it aligned with this nationalism, offering what elite civilian governments could not: leadership willing to confront American power.

Yet Panamanian nationalism was constrained by the same factors that had prevented independence from Colombia before 1903: small size, economic dependency, and American power. Panama's population was still only 1.4 million in 1968. The economy generated perhaps $500 million in GDP, with the majority coming directly or indirectly from canal operations. The United States maintained 30,000 troops in fourteen bases with overwhelming military superiority. Nationalist governments could demand renegotiation, protest American policies, and mobilize popular support, but they could not unilaterally expel American forces or seize the canal without risking invasion. The balance of power was too asymmetric.

The three monopolies that structured Panamanian society in 1968 reflected these contradictions. The wealth monopoly remained concentrated in elite families who controlled banking, commerce, and real estate, but their wealth was entirely dependent on American tolerance and canal operations. Remove American power and elite wealth would collapse as it had during the 1870s depression and after French bankruptcy. The elite's economic position was strong domestically but derivative internationally, making them wealthy intermediaries rather than autonomous capitalists.

The violence monopoly was contested for the first time. The United States still maintained overwhelming military force in the Zone bases, and American troops had demonstrated in 1964 that they would fire on Panamanian civilians if Zone control was threatened. But the National Guard's 1968 coup showed that military force could also be deployed against American interests if Panamanian officers chose to challenge hegemony. The Guard was small—perhaps 5,000 to 7,000 personnel compared to 30,000 American troops—but it represented organized violence under Panamanian control for the first time since 1903. This shift would prove critical during Torrijos's negotiations with Carter.

The information monopoly had broken down completely. Elite families still owned major newspapers, but they could not control student movements, labor organizations, or nationalist political parties. Literacy had risen to perhaps 75 percent by 1968, radio reached most of the population, and television was beginning to expand. The university produced educated critics of elite rule and American hegemony. The information environment was pluralistic in ways that would have been impossible in 1914, creating space for nationalist mobilization that the elite could not suppress through media control alone.

Panama in 1968 stood at a crossroads. The colonial status quo was clearly unsustainable—the Flag Riots had demonstrated that maintaining American control would require sustained violent repression incompatible with American self-image and international position. But the path forward was unclear. Would treaty renegotiation transfer genuine sovereignty or merely adjust colonial arrangements? Would nationalism lead to economic transformation or remain symbolic politics while elite economic power persisted? Would the military govern as nationalist reformers or as authoritarian rulers serving elite interests behind populist rhetoric? The answers would emerge over the next thirty years as Torrijos negotiated new treaties, Noriega corrupted the nationalist project, and the United States invaded to remove a dictator it had helped create. The fundamental pattern established between 1903 and 1968—Panamanian sovereignty conditional on American interests—would prove difficult to break even after formal independence.

END OF PART 4

To be continued in Part 5: Torrijos Dictatorship and Canal Negotiations (1968-1981)

Pattern validated: Elite collaboration with US hegemony (1914-1960s) generated nationalist backlash but elite too weak/divided to challenge American power. Student movements (1947-1964) escalated to Flag Riots (21 Panamanians killed, January 1964) forcing US to acknowledge colonial status quo unsustainable. Arnulfo Arias elected 3x (1940, 1949, 1968), removed 3x by US-backed coups. October 1968 military coup ended elite civilian rule, began Torrijos era. Demonstrates small-state limitation: nationalism genuine and mass-based, but asymmetric power (1.4M Panamanians vs. 30,000 US troops, 14 bases) constrained what even

military government could achieve. Next: Torrijos negotiations (1977 treaties), death (1981), Noriega rise, US invasion (1989).

PANAMA CASE STUDY - PART 5

Elite Power Under Extreme External Constraint (1501-2025)

PART 5: MILITARY DICTATORSHIP AND TREATY ERA (1968-1981)

"The General Who Challenged Empire: Nationalism as Elite Adaptation"

PROLOGUE: A STUDENT'S AWAKENING

University of Panama, October 12, 1968

Roberto Alemán sat in the university cafeteria the morning after the coup, listening to his classmates argue about what had just happened. The previous evening, National Guard tanks had rolled through Panama City's streets while radio stations announced that President Arnulfo Arias—elected just eleven days earlier—had been removed from office. The students who had campaigned for Arias were devastated. Arias represented something rare in Panamanian politics: a genuinely popular leader who defied both the traditional elite and the Americans. Now he was gone again, the third time a coup had removed him from power.

But Roberto found himself oddly unsurprised. He had grown up in the Canal Zone, the son of a Silver Roll worker who had spent thirty years maintaining the locks for a fraction of what American workers earned for identical work. Roberto had attended segregated schools, used segregated facilities, and watched American children live in prosperity while Panamanian families crowded into tenements just outside the Zone's boundaries. The Flag Riots of 1964 had occurred when he was fourteen—he remembered the funerals, the anger, the helplessness. Four years later, attending university on a scholarship his father had saved for decades to provide, Roberto had joined student demonstrations demanding genuine independence. He had voted for Arias believing that a populist politician might at least embarrass the Americans, even if he couldn't actually challenge their power.

The coup proved Roberto's deepest suspicions correct. Panama was not a real country. It was a geographical expression, a ten-mile-wide stripe of territory the United States had carved out of Colombia to build a canal, governed by whichever local elite families collaborated most enthusiastically with American interests. Elections changed governments but never altered the fundamental arrangement. The Americans controlled the canal, operated military bases wherever they wished, and intervened whenever Panamanian politics threatened their interests. The elite families owned the banks, the import businesses, the real estate surrounding the

canal. The poor worked in the Canal Zone for subsistence wages or scraped by in the informal economy that surrounded American prosperity like a slum surrounds a palace.

What Roberto didn't know that morning—what none of them knew—was that the officer who had just seized power would spend the next thirteen years transforming Panamanian politics in ways that seemed impossible in October 1968. Omar Torrijos would negotiate treaties that transferred the canal to Panamanian control. He would stand before the United Nations and threaten to blow up the locks if the United States refused to negotiate. He would befriend Fidel Castro while simultaneously welcoming international banks that would make Panama a global financial center. He would expand education and healthcare for the poor while protecting the wealth of the families who had collaborated with Americans for seventy years. He would rule as a dictator who suspended elections and censored opposition while claiming to represent the aspirations of ordinary Panamanians against both American imperialism and domestic oligarchy.

Torrijos would demonstrate that even in a country created by a superpower for that superpower's purposes, nationalism could force concessions that decades of elite civilian politics had never achieved. But he would also demonstrate the limits of nationalism when it refused to challenge elite wealth. By the time Torrijos died in a plane crash in 1981—an accident that many Panamanians believed was CIA assassination—the canal treaties had been signed but not yet implemented, and the military dictatorship he had built would be inherited by a man who would corrupt every principle Torrijos claimed to represent. The pattern that defined Panama since 1903 would prove adaptable but unbreakable: elite power survived by adjusting to nationalist pressure while never surrendering control over the economy that sustained privilege.

I. THE COUP AND TORRIJOS'S RISE

The National Guard coup of October 11, 1968 followed a script that had become depressingly familiar in Latin American politics. Arnulfo Arias, inaugurated as president on October 1, had attempted to consolidate power by purging military officers he considered disloyal and replacing them with personal appointees. The National Guard preempted him. At dawn on October 11, troops surrounded the Presidential Palace and key government buildings while officers announced on radio that Arias had been removed. There was minimal violence—a few scattered gunfights, perhaps a dozen casualties—because Arias had no significant armed support and the elite families who had backed his election were unwilling to fight a military they depended on for internal security.

Two officers emerged as coup leaders: Lieutenant Colonel Omar Torrijos and Major Boris Martínez. Torrijos was forty years old, the son of two schoolteachers from Santiago de Veraguas, a provincial town in Panama's interior. He had joined the National Guard in 1952, trained at military academies in El Salvador and the United States, and risen steadily through competence and political skill rather than family connections. Martínez was younger and more

ideological, influenced by leftist currents flowing through Latin America in the late 1960s. The partnership was unstable from the beginning.

By March 1969, Torrijos had outmaneuvered Martínez and established himself as Panama's de facto ruler, though he initially governed through a civilian puppet president and avoided claiming formal titles. The ease with which Torrijos consolidated power revealed the weakness of Panamanian civilian institutions. The National Guard was the only organized force in the country—there were no independent labor unions strong enough to mount general strikes, no political parties with armed wings, no regional power centers that could resist Panama City. The Canal Zone contained thirty thousand American troops and civilians who could theoretically intervene, but the Americans had decided that Torrijos was preferable to the chaos that might follow if they tried to restore Arias a fourth time.

Torrijos presented himself from the outset as a different kind of military ruler. While generals in Brazil, Argentina, and Chile were installing brutally repressive regimes to crush leftist movements, Torrijos claimed to represent the poor and marginalized against both foreign imperialism and domestic oligarchy. His rhetoric borrowed from Cuba's Fidel Castro, Peru's Juan Velasco Alvarado, and the broader tradition of Latin American populist nationalism. But unlike Castro, Torrijos never nationalized major industries or expropriated elite wealth. Unlike Velasco, he implemented land reform only symbolically. What made Torrijos distinctive was not revolutionary transformation but his ability to maintain populist credibility while governing in ways that ultimately protected elite economic interests.

The first years of Torrijos's rule established patterns that would persist until his death. He suspended elections and banned opposition political parties, justifying dictatorship as necessary to confront American imperialism and implement reforms that corrupt civilian politicians had failed to achieve. He expanded state spending on education and healthcare, building schools and clinics in rural areas that previous governments had ignored. He raised minimum wages, strengthened labor protections, and allowed unions to organize more freely than they had under civilian rule. These policies generated genuine support among the poor and working class, who experienced modest improvements in living standards and saw a government that at least rhetorically acknowledged their existence.

But Torrijos carefully avoided threatening the foundations of elite wealth. Panama's offshore banking sector—already the hemisphere's second-largest after Switzerland by the early 1970s—continued to expand with Torrijos's blessing. The banking laws that made Panama attractive for money laundering and tax evasion remained in place. The elite families who controlled import-export businesses, commercial real estate, and domestic retail continued to prosper. Torrijos's land reform affected less than ten percent of arable land, and much of what was redistributed was marginal property that the elite didn't particularly value. When labor unions struck against foreign corporations, Torrijos sometimes supported them. When they struck against domestically-owned businesses, he mediated settlements that favored employers.

The contradiction was deliberate. Torrijos needed the elite's acquiescence to govern—Panama was too small and too dependent on international capital for a military dictatorship to function without some cooperation from the business class. He also needed American tolerance, which required demonstrating that Panamanian nationalism didn't threaten American commercial interests or regional stability. By protecting elite wealth while redistributing just enough to maintain popular support, Torrijos constructed a governing coalition that included both the marginalized masses he claimed to represent and the privileged classes he claimed to oppose. This balancing act would define his entire rule.

II. DOMESTIC POLICIES: POPULISM WITHOUT REDISTRIBUTION

The agrarian reform law of 1969 exemplified Torrijos's approach to domestic policy. The law authorized the government to expropriate unused land, redistribute it to landless peasants, and provide technical assistance and credit to small farmers. In practice, the reform affected perhaps five hundred thousand acres over twelve years—less than ten percent of Panama's total land area, and much of it was jungle or marginal terrain that could barely sustain agriculture. The largest estates owned by elite families remained intact. What appeared revolutionary in rhetoric produced modest results in practice.

The limited scope of land reform reflected Panama's geography and economic structure as much as Torrijos's political calculations. Seventy percent of Panama's territory was either impenetrable jungle or steep mountains unsuitable for agriculture. Unlike Uruguay, where the Banda Oriental's grasslands supported cattle ranching on enormous estates that reformers could target for redistribution, Panama had never developed large-scale agricultural production. The wealth that sustained elite families came from commerce, banking, and real estate related to the canal, not from land ownership. There simply wasn't an agricultural elite whose estates could be expropriated without creating economic chaos.

This mattered enormously for Torrijos's political options. Revolutionary movements in other Latin American countries mobilized peasants by promising land redistribution—the Zapatistas in Mexico, the FSLN in Nicaragua, the FMLN in El Salvador all drew support from landless agricultural workers who wanted farms. Panama had no equivalent constituency. The landless rural poor did exist, but they were scattered in small communities throughout the interior, politically fragmented, and lacking the organizational capacity to sustain a revolutionary movement. Urban workers in Panama City and Colón had somewhat more leverage through their concentration in key industries, but these workers were already better off than their rural counterparts and more interested in wage increases and job security than in radical transformation.

Torrijos understood these structural constraints and adapted accordingly. He expanded public employment, hiring tens of thousands of Panamanians into government positions that provided

stable middle-class incomes. He invested in infrastructure—roads, schools, clinics, electrification—that improved living standards in rural areas while creating construction jobs in urban centers. He raised the minimum wage repeatedly, ensuring that formal sector workers saw income gains even as inflation eroded purchasing power. These policies cost money but didn't threaten elite wealth. Government spending increased from approximately fifteen percent of GDP in 1968 to twenty-five percent by 1980, financed partly through canal revenues and partly through international borrowing that would create crisis in the 1980s.

The expansion of education was Torrijos's most significant domestic achievement. Literacy increased from seventy percent in 1968 to eighty-five percent by 1981 as the government built hundreds of schools and hired thousands of teachers. University enrollment tripled, with the University of Panama expanding dramatically and regional centers opening in provincial cities. The curriculum emphasized Panamanian nationalism, teaching students about the history of American imperialism and the heroic struggle for canal sovereignty. An entire generation came of age during the Torrijos years learning that their country had been robbed of its most valuable asset and that reclaiming the canal was both economically necessary and morally justified.

This educational expansion had contradictory effects. On one hand, it created the literate, politically aware population that would support Torrijos's canal negotiations and provide the mass base for Panamanian nationalism. On the other hand, it produced thousands of educated young people competing for jobs in an economy that couldn't absorb them all. University graduates who couldn't find professional employment became a source of political instability, particularly after Torrijos's death when economic crisis hit. The expansion of education without corresponding economic transformation—a pattern visible in many developing countries—created expectations that the system couldn't fulfill.

Labor policy followed similar patterns. Torrijos allowed unions to organize more freely than civilian governments had permitted, and union membership increased from perhaps twenty thousand in 1968 to sixty thousand by 1980. Public sector unions became particularly strong, representing teachers, healthcare workers, and government employees who benefited from Torrijos's expansion of state employment. But private sector unions faced constraints. When workers struck against United Fruit Company or other foreign corporations, Torrijos sometimes sided with workers, calculating that supporting strikes against foreign capital enhanced his nationalist credentials. When workers struck against domestically-owned businesses or demanded changes that threatened elite interests, the government mediated settlements that maintained employer control.

The result was a labor movement that had more institutional space than under civilian rule but remained subordinate to state power and unable to challenge fundamental economic structures. This was classic corporatism—incorporating workers into state-controlled organizations that channeled demands through official procedures while preventing autonomous working-class organization. Brazil's Vargas had pioneered this approach in the 1930s, Perón had refined it in Argentina in the 1940s, and Torrijos adapted it to Panama's conditions in the 1970s. Workers gained concrete benefits—higher wages, better conditions, job security for those in the formal

sector—but the price was subordination to a dictator who would tolerate demands only insofar as they didn't threaten elite wealth or his own power.

Healthcare expansion followed the same pattern as education. The government built clinics in rural areas and expanded urban hospitals, trained more doctors and nurses, and provided basic services to populations that had previously lacked access to modern medicine. Child mortality declined, life expectancy increased, and common diseases that had killed thousands annually—typhoid, cholera, malaria in some regions—were brought under better control. These were genuine improvements that materially benefited the poor. They were also politically useful, generating gratitude and loyalty among populations that had been ignored by previous governments.

But healthcare expansion didn't challenge elite interests because Panama's elite didn't derive wealth from controlling healthcare. Unlike land reform in Uruguay or nationalization of industries in Chile, expanding public clinics and hospitals didn't expropriate anyone's property or threaten anyone's business model. Elite families could support healthcare expansion because it cost them nothing while potentially preventing the social explosions that might threaten their other interests. This was the pattern across all of Torrijos's domestic policies: expand services and redistribute just enough to maintain popular support and nationalist credibility, but never touch the foundations of elite wealth.

The offshore banking sector's continued expansion during the Torrijos years revealed the regime's fundamental orientation. Panama had first established itself as a banking haven in the 1920s when loose regulations attracted international capital fleeing taxes and oversight. By the 1970s, Panama was the hemisphere's second-largest offshore banking center with over one hundred registered banks—many of them shells with no physical presence beyond a brass plaque on an office building. These banks facilitated tax evasion, money laundering, and capital flight throughout Latin America. Drug cartels would later use them extensively, as Noriega's activities in the 1980s would demonstrate.

Torrijos not only permitted this system to continue but actively expanded it. New banking laws in the 1970s strengthened secrecy provisions and made Panama even more attractive for hiding money. The banking sector became one of the economy's largest contributors to GDP, generating employment for thousands of accountants, lawyers, and administrative workers while enriching the elite families who controlled domestic banks and served as intermediaries for international capital. Torrijos justified this by arguing that banking revenues helped finance social programs, which was partly true—taxes on banking transactions did generate government revenue. But the deeper truth was that protecting offshore banking was the price Torrijos paid for elite acquiescence to his rule.

This arrangement revealed the essential bargain at the heart of Torrijos's regime. The elite families who had collaborated with American imperialism since 1903 accepted a nationalist military dictatorship that they would have opposed under different circumstances because that dictatorship protected their core economic interests while claiming to represent the masses. Torrijos could denounce American imperialism, befriend Castro, expand social services, and

strengthen labor unions as long as he didn't nationalize banks, expropriate commercial real estate, or impose wealth taxes that would actually redistribute elite fortunes. The elite got security for their property. Torrijos got domestic political space to pursue the canal negotiations that were his obsession. The poor got schools, clinics, higher minimum wages, and the psychological satisfaction of seeing their country assert dignity against the United States. It was an unstable equilibrium that depended entirely on Torrijos's ability to maintain all three constituencies simultaneously.

III. THE CANAL NEGOTIATIONS

The canal negotiations between Panama and the United States that culminated in the 1977 treaties were the central drama of Torrijos's rule and the achievement that secured his place in Panamanian history. The negotiations took four years of intensive diplomacy, multiple rounds of talks involving hundreds of officials on both sides, and countless moments when the process seemed about to collapse. What made the negotiations possible was a unique convergence of circumstances that briefly aligned Panamanian nationalist demands with American strategic calculations.

The process began formally in 1973 when Panama and the United States established a joint commission to explore new treaty arrangements, but the groundwork had been laid over the previous decade. The Flag Riots of 1964 had forced the Johnson administration to acknowledge that the colonial status quo was unsustainable. President Johnson had promised to negotiate new treaties, but the Vietnam War and domestic political resistance from conservatives had prevented progress. Nixon had shown no interest in canal negotiations, viewing them as peripheral to more important geopolitical concerns. It was only when Jimmy Carter became president in 1977 that conditions favored a breakthrough.

Carter brought to the presidency a commitment to human rights and an ideological aversion to colonialism that made him uniquely willing among postwar American presidents to contemplate surrendering the canal. His administration believed that maintaining colonial control over the Canal Zone damaged American standing in Latin America and the Third World more broadly, providing ammunition to leftist movements and communist propaganda. The cost-benefit analysis had shifted: the canal remained strategically important, but the bases in the Zone could be closed without significantly harming American military capability, and the canal itself could be operated just as effectively by Panamanians as by Americans. The symbolic value of decolonization outweighed the practical benefits of direct control.

Torrijos understood that this was probably Panama's best opportunity to negotiate favorable terms and pursued the talks with single-minded intensity. He deployed a sophisticated diplomatic strategy that combined direct bilateral negotiations with appeals to international opinion. At the United Nations Security Council meeting in Panama City in March 1973, Torrijos had delivered a speech warning that if the United States refused to negotiate, Panama might be

forced to blow up the canal locks—a threat that was probably bluff but got international attention. He cultivated relationships with Latin American leaders who pressured the United States to negotiate. He allowed Cuban advisors to help with diplomatic strategy while maintaining sufficient distance from Cuba to avoid giving American conservatives ammunition to claim that Panama was communist.

The negotiations themselves were extraordinarily complex, involving hundreds of technical issues ranging from military base closures to the mechanics of transferring canal operations to toll rates to environmental protections. But the fundamental questions were political: Would the United States actually surrender sovereignty over the Zone? Would Panama gain control of the canal, and when? Would the United States retain any right to intervene militarily, and under what circumstances? The answers to these questions determined whether the treaties represented genuine decolonization or merely cosmetic adjustments to colonial arrangements.

The breakthrough came in 1977 when negotiators agreed on two separate treaties addressing different issues. The Panama Canal Treaty established a timeline for transferring canal operations to Panama, with full control shifting on December 31, 1999. The Canal Zone would be abolished immediately, with territory returned to Panama gradually as American military bases closed. Panama would begin receiving a share of canal revenues immediately, increasing over time until Panama controlled all tolls after 1999. American workers would be gradually replaced by trained Panamanian personnel. The treaty was detailed and specific, running to dozens of pages with numerous annexes covering technical operations.

The Neutrality Treaty addressed American security concerns and would prove far more controversial. This treaty guaranteed the canal's permanent neutrality, meaning that ships from all nations would have access regardless of political circumstances. More importantly from the American perspective, the treaty gave the United States the right to act "to defend the canal against any threat to the regime of neutrality"—language that Panamanians interpreted as permitting intervention only to keep the canal open to all ships, but that Americans interpreted as authorizing military intervention whenever the United States determined the canal was threatened. This ambiguity was deliberate, allowing both sides to claim victory while leaving fundamental questions about sovereignty unresolved.

The treaties were signed on September 7, 1977 at a ceremony in Washington attended by twenty-seven heads of state from throughout the hemisphere. Carter and Torrijos signed the documents in the Organization of American States building, with witnesses including every living former president and a crowd of several hundred diplomats and officials. The ceremony was carefully choreographed to emphasize both historic significance and bipartisan American support. Carter had invited Gerald Ford, Richard Nixon, and Lyndon Johnson's widow to attend, demonstrating that treaty support transcended party divisions. The symbolism was powerful: the United States was voluntarily surrendering colonial possession of territory it had controlled for seventy-four years, acknowledging that times had changed and that maintaining formal empire was no longer compatible with American values or interests.

But getting the treaties signed was easier than getting them ratified. The American Senate had to approve both treaties by two-thirds majority, and conservative opposition was fierce. Ronald Reagan, preparing to run for president in 1980, made opposition to the treaties a centerpiece of his campaign, famously declaring "We built it, we paid for it, it's ours, and we're going to keep it." Conservative senators argued that surrendering the canal would weaken American power, encourage communist expansion in the hemisphere, and betray the American workers who had built the canal and operated it for seven decades. The debate consumed months of Senate time and became one of the most contentious foreign policy battles of the 1970s.

Carter deployed every tool available to secure ratification. He invited wavering senators to the White House for private meetings, authorized intelligence briefings emphasizing the security benefits of treaty ratification, and mobilized business groups that supported the treaties because they wanted access to Panamanian markets. Former Secretary of State Henry Kissinger testified in favor of ratification, arguing that refusing to negotiate would radicalize Panama and potentially lead to sabotage of the canal. The Joint Chiefs of Staff testified that from a purely military perspective, the treaties served American interests better than maintaining colonial control. Public opinion polls showed narrow majority support for ratification, though opposition was intense and well-organized.

The Senate finally ratified both treaties by identical votes of sixty-eight to thirty-two in March and April 1978—exactly the two-thirds majority required. The margins were perilously thin; a shift of two votes would have killed the treaties. Conservative senators who voted for ratification paid political costs, with several losing reelection campaigns where treaty support was used against them. Carter himself would lose to Reagan in 1980, partly because conservative anger over the canal treaties mobilized opposition. The ratification battle demonstrated that American domestic politics still constrained what foreign policy adjustments were possible, even when both Democratic and Republican foreign policy establishments agreed that change was necessary.

In Panama, Torrijos held a referendum on October 23, 1977 asking Panamanians to approve the treaties. The vote was sixty-seven percent in favor, thirty-three percent opposed—a solid majority but not the overwhelming endorsement Torrijos had hoped for. Opposition came partly from the traditional elite, who worried that eventually controlling the canal would make Panama more of a target for international pressure, and partly from leftist nationalists who believed the treaties didn't go far enough because they allowed American intervention rights. But sixty-seven percent was enough to claim popular legitimacy for what Torrijos correctly understood as the defining achievement of his rule.

The treaties validated Torrijos's nationalist project and secured his historical legacy. No previous Panamanian government had achieved anything comparable. The civilian politicians who had governed before 1968 had tried repeatedly to renegotiate the 1903 treaty and failed every time. Torrijos had succeeded where they had failed because he combined nationalist rhetoric with pragmatic understanding of what the United States would accept, backed by credible threats to make American control of the Zone untenable if negotiations failed. He had also benefited from favorable timing—Carter's presidency created a narrow window when treaty ratification was possible, and Torrijos had the skill to exploit that window.

IV. ASSESSMENT: NATIONALISM AS ELITE ADAPTATION

Torrijos's rule from 1968 to 1981 demonstrated both the possibilities and the limits of nationalist dictatorship in a small state created by and dependent on a superpower. The canal treaties were a genuine achievement that transferred sovereignty over Panama's most valuable asset from American to Panamanian control. The expansion of education, healthcare, and labor rights materially improved conditions for hundreds of thousands of poor Panamanians who had been marginalized under previous governments. The symbolic assertion of Panamanian dignity against American imperialism had psychological value that shouldn't be dismissed as mere propaganda—it mattered to Panamanians to see their country demand and receive respect.

But Torrijos never challenged the fundamental structure of elite wealth that had characterized Panama since 1903. The families who had prospered by collaborating with American imperialism continued to control banking, commerce, and real estate throughout his rule. The offshore banking sector that facilitated money laundering and tax evasion expanded rather than contracted. Land reform affected only marginal properties while large estates remained intact. Labor unions gained institutional recognition but remained subordinate to state control and unable to organize autonomous resistance. The dictatorship suspended elections, censored opposition, and occasionally employed torture against political prisoners—authoritarian practices that Torrijos justified as necessary to confront imperialism but that also conveniently prevented the emergence of any political force that might challenge his power or the elite interests he protected.

The pattern Torrijos established was classic mid-twentieth-century Latin American populism: nationalist rhetoric combined with corporatist labor policies and protection of elite property rights, all enforced by military dictatorship claiming to represent the masses against both foreign imperialism and domestic oligarchy. This pattern had appeared in various forms across the region—Vargas in Brazil, Perón in Argentina, Velasco in Peru. What made Torrijos distinctive was the success of his canal negotiations, which gave substance to nationalist claims that would have otherwise been merely rhetorical.

The three monopolies at the end of Torrijos's rule in 1981 revealed both change and continuity. Wealth remained concentrated in the hands of perhaps twenty to forty elite families who controlled the commanding heights of the economy. The canal would eventually transfer to Panamanian ownership, but the benefits of that transfer would flow overwhelmingly to the elite who controlled the businesses positioned to profit from canal operations, logistics, and banking. Violence had been monopolized by the National Guard, which Torrijos had transformed from an internal security force into the only real political institution in the country. The Americans retained their intervention right under the Neutrality Treaty, but they had closed most bases and withdrawn most troops, shifting the balance slightly toward Panamanian autonomy. Information remained partly controlled—the government censored critical media and promoted nationalist narratives through education—but literacy had expanded and pluralism had increased

sufficiently that the elite could no longer monopolize political discourse as they had in earlier eras.

Torrijos died on July 31, 1981 when his airplane crashed while flying from a rural outpost back to Panama City. He was fifty-two years old. The cause was officially ruled pilot error combined with bad weather, but many Panamanians believed then and still believe today that the CIA assassinated him. The evidence is circumstantial—Torrijos had made enemies in Washington through his friendship with Castro and his strident anti-imperialism, and the Carter administration that had tolerated him had been replaced by Reagan's aggressively anti-communist government. But no conclusive proof has ever emerged, and accidents do happen. What matters more than how Torrijos died is what his death revealed about the regime he had built.

The military dictatorship survived Torrijos's death because it was an institution, not merely a personal fiefdom, but it quickly became clear that the nationalist project had depended heavily on Torrijos's personal authority and political skill. His successors would lack both his nationalist credibility and his ability to balance competing pressures from the elite, the Americans, and the masses. Within two years, Manuel Noriega would emerge as Panama's strongman, and he would corrupt every principle Torrijos had claimed to represent. The canal treaties would be implemented as scheduled in 1999, giving Torrijos posthumous vindication, but the corruption and authoritarianism that would characterize Panama between his death and the American invasion of 1989 would tarnish the nationalist legacy he had tried to build.

The fundamental question is whether Torrijos's nationalism represented elite adaptation or genuine transformation. The answer is clearly the former. Torrijos challenged American hegemony successfully and won concessions that seemed impossible when he seized power in 1968. He expanded social services and strengthened labor in ways that materially benefited the poor. But he never threatened elite wealth, never expropriated major businesses, never imposed the kind of redistributive taxation that would have actually shifted resources from rich to poor. He ruled as a dictator who suspended democracy while claiming to represent popular will. The elite tolerated him because he protected their core interests while giving the masses just enough to prevent revolutionary radicalization.

This was adaptation, not transformation—a pattern that would appear repeatedly across the case studies in this framework. Elites made strategic concessions when threatened, accepted temporary constraints on their power, and allowed nationalist leaders to redistribute symbolically while preserving the foundations of wealth. Torrijos was more successful than most populist leaders at actually delivering material benefits, but even he operated within constraints that prevented fundamental change. A small state created by a superpower for that superpower's purposes could not fully escape its origins. The canal would return to Panamanian control, but the Neutrality Treaty would preserve American intervention rights indefinitely. Elite families would maintain their economic dominance, now positioned to profit from canal revenues rather than from American colonial administration. Sovereignty would remain conditional, dignity would remain negotiable, and the pattern established in 1903 would prove adaptable but unbreakable.

END OF PART 5

Pattern demonstrated: Nationalist military dictatorship (1968-1981) challenged US hegemony successfully (canal treaties 1977) but preserved elite economic power (banking, commerce, real estate). Torrijos expanded education/healthcare, strengthened labor, asserted Panamanian dignity—genuine achievements that materially benefited poor. But never expropriated elite wealth, never democratized economy, ruled as dictator censoring opposition. Elite tolerated nationalism because it protected their core interests. Demonstrates elite adaptation pattern: make strategic concessions (accept treaties, allow social spending) while preserving fundamentals (property ownership, offshore banking). Small state can force limited sovereignty gains through skilled nationalist leadership, but cannot break dependency when geography makes country strategically vital to superpowers. Next: Noriega corruption (1981-1989), US invasion (1989), neoliberal restoration.

PANAMA CASE STUDY - PART 6

Elite Power Under Extreme External Constraint (1501-2025)

PART 6: NORIEGA DICTATORSHIP AND US INVASION (1981-1989)

"From Nationalist General to Narco-Dictator: When Your Protector Becomes Your Invader"

PROLOGUE: A BANKER'S DILEMMA

Panama City, December 1989

Carlos Arias sat in his office on the top floor of the Banco General building overlooking Avenida Balboa, staring at the American warships visible in the harbor. It was December 19, and everyone in Panama City who paid attention to such things knew that invasion was imminent. The Americans had been building up forces for weeks—additional troops flowing into bases that were supposed to be closing under the canal treaties, military exercises increasing in frequency and intensity, and most ominously, evacuating American civilians from the Canal Zone. Noriega had declared a "state of war" with the United States three days earlier after an American Marine was killed at a Panama Defense Forces checkpoint, and now everyone was waiting for the response.

Carlos was forty-three years old, Princeton-educated, and the third generation of his family to run one of Panama's largest banks. His grandfather had founded the bank in 1935 with capital accumulated from managing real estate transactions around the Canal Zone. His father had expanded it during the postwar boom, establishing the offshore banking division that now handled hundreds of millions of dollars for clients throughout Latin America. Carlos himself had taken over as president in 1982, just after Torrijos's death, and had navigated the bank through the turbulent Noriega years by doing what Panamanian bankers had always done—remaining politically neutral, maintaining relationships with whoever held power, and focusing on profit.

But the Noriega years had made neutrality increasingly difficult. The dictator's involvement in drug trafficking was an open secret in Panama's business community. Everyone knew that Colombian cartels were using Panamanian banks to launder money, that Noriega was taking enormous bribes to allow the traffic, and that the banking secrecy laws that made Panama attractive for legitimate international capital also made it a haven for criminal enterprises. Carlos's bank didn't knowingly handle cartel money—or at least he maintained plausible

deniability about which clients might be fronts for drug traffickers—but the entire financial sector benefited from the loose regulatory environment that Noriega protected.

The problem was that Noriega had become a liability that threatened the very stability the elite depended on. His confrontations with the United States had triggered sanctions that were destroying the economy. The Americans had frozen Panamanian assets in US banks, cut off aid, and pressured international organizations to isolate Panama. The banking sector had collapsed—accounts frozen, dollars scarce, businesses failing. Carlos's bank had survived only by drawing on offshore reserves and limiting withdrawals, but every day the crisis continued, more depositors lost confidence. The elite families who had tolerated Torrijos because he protected their interests while challenging American hegemony had turned against Noriega because his recklessness threatened everything.

When American troops began moving into position that evening, Carlos felt a complex mixture of relief and shame. Relief because he knew the invasion would remove Noriega and restore the stability that commerce required. The Americans would install a government friendly to business, reopen the banking system, and allow Panama to return to its profitable role as a service economy connecting North and South America. Shame because welcoming a foreign invasion of your own country was an admission of weakness that made a mockery of the nationalist rhetoric Carlos had absorbed during the Torrijos years. He had been a university student in the early 1970s, part of the generation that had believed Panama could assert genuine sovereignty and build a nation that served ordinary Panamanians rather than foreign powers and domestic oligarchs.

But that dream had died with Torrijos, corrupted by Noriega into a grotesque parody where nationalism became cover for drug trafficking and the military dictatorship that was supposed to protect Panama from imperialism instead provoked the most dramatic American military intervention in the hemisphere since the Dominican Republic in 1965. As Carlos watched the warships and waited for the invasion to begin, he understood that Panama's fundamental condition hadn't changed since 1903. The country existed because the Americans wanted it to exist. Panamanian sovereignty was real only insofar as it served American interests. When it didn't, American power would remind everyone—elite and masses alike—that Panama's independence had always been conditional.

The shooting started at 1:00 AM on December 20. Twenty-seven thousand American troops, F-117 stealth bombers, helicopter gunships, and special forces teams launched simultaneous attacks on PDF positions throughout the country. Carlos spent the night in his apartment listening to gunfire and explosions, watching tracer rounds arc across the sky, and wondering whether the banking records in his office would survive whatever destruction the invasion caused. When dawn broke and American soldiers controlled Panama City, Carlos knew that the post-invasion government would need people like him—bankers, lawyers, businessmen who understood how to manage the economy the Americans wanted to restore. The elite would survive, as they always had, by adapting to whoever held power.

I. NORIEGA'S RISE: FROM INTELLIGENCE OFFICER TO STRONGMAN

Manuel Antonio Noriega Moreno was born in 1934 in a Panama City slum, the illegitimate son of an accountant and a domestic servant. His background marked him as an outsider in Panama's elite-dominated society where family lineage determined access to power and wealth. His mother abandoned him as an infant, and he was raised by a godmother in circumstances of poverty and social stigma that would have excluded him from conventional paths to influence. But Noriega discovered early that intelligence, ruthlessness, and willingness to serve powerful patrons could substitute for family connections. He was accepted to the National Institute, one of Panama's better public schools, on academic merit. After graduating in 1952, he won a scholarship to study medicine in Peru, but military service interrupted his studies and he discovered that he preferred the structured hierarchy and advancement opportunities of military life to the uncertainty of civilian careers.

Noriega joined the National Guard in 1962 and immediately demonstrated the qualities that would define his career: exceptional intelligence combined with complete absence of ideological commitment or moral scruples. He was trained by American military advisors and rapidly identified as a promising asset. His fluency in English, his analytical intelligence, and his understanding that the Americans controlled opportunities for advancement within the National Guard made him valuable to both Panamanian officers seeking to maintain American support and American intelligence agencies seeking reliable sources within Panama's military. By the mid-1960s, Noriega had become head of the National Guard's intelligence section—the G-2—where he developed relationships with the Central Intelligence Agency that would persist for decades.

The CIA relationship was transactional from the beginning. Noriega provided intelligence on leftist movements in Panama, information about Cuban activities in Central America, and reports on political developments that might affect the Canal Zone. In exchange, he received payments that supplemented his military salary and protection from Panamanian superiors who might have blocked his advancement. The amounts were initially modest—thousands of dollars annually rather than the hundreds of thousands he would later receive—but they established a pattern that would characterize his entire career. Noriega understood that Panama's strategic location between North and South America, combined with the canal's importance to American power, meant that American intelligence agencies needed sources within Panama's security forces. He positioned himself as that source and prospered accordingly.

Under Torrijos, Noriega became the regime's enforcer. While Torrijos maintained his populist image and cultivated relationships with leftist leaders throughout Latin America, Noriega handled the dirty work—suppressing political opposition, intimidating critics, and managing relationships with the CIA that Torrijos found useful but didn't want to acknowledge publicly. Noriega's G-2 monitored student movements, infiltrated labor unions, and maintained files on potential opponents. The torture that occurred during the Torrijos years—limited by Latin American standards of the 1970s but real nonetheless—was typically carried out by G-2

personnel under Noriega's command. When Torrijos needed someone arrested, compromised, or disappeared, Noriega made it happen.

This role positioned Noriega perfectly to seize power after Torrijos's death. The institutional structure Torrijos had built concentrated authority in the military, and within the military, the intelligence apparatus that Noriega controlled was the most politically sophisticated institution. Rubén Darío Paredes, who initially assumed command of the Panama Defense Forces after Torrijos died, was a conventional military officer who understood combat operations and security but lacked the political intelligence and ruthlessness required to navigate the complex relationships between the Panamanian elite, American power, and popular nationalism that had characterized Torrijos's rule. Noriega understood these relationships intimately because managing them had been his function for two decades.

By August 1983, Noriega had outmaneuvered Paredes and established himself as commander of the PDF with effective control over the government. Nominally, Panama had civilian presidents—first Ricardo de la Espriella, then Nicolás Ardito Barletta, then Eric Arturo Delvalle—but everyone understood that Noriega made the actual decisions. The civilians performed ceremonial functions and managed day-to-day administration while Noriega controlled security, foreign relations, and anything else that mattered to Panama's power structure. This arrangement suited the Panamanian elite because it maintained a constitutional facade while ensuring that real power remained with someone who understood that elite wealth must be protected.

What the elite didn't fully appreciate in 1983 was how different Noriega was from Torrijos. Torrijos had been a nationalist who believed in Panamanian sovereignty and used his power to advance that goal while enriching himself and his associates modestly. Noriega was a kleptocrat who viewed power as an opportunity for unlimited personal enrichment and who had no ideological commitments whatsoever beyond survival and accumulation. Torrijos had protected offshore banking because it generated revenue and elite support; Noriega would transform Panama into a narco-state where drug trafficking proceeds dwarfed legitimate commerce. Torrijos had cultivated relationships with Cuba and other leftist governments because he believed in anti-imperialism; Noriega maintained those relationships because they provided diplomatic cover and additional revenue streams while simultaneously taking money from the CIA. The transition from Torrijos to Noriega was the transition from nationalist authoritarianism to pure criminality dressed in the rhetoric of sovereignty.

II. THE NARCO-DICTATORSHIP: WHEN COLD WAR UTILITY TRUMPED LAW ENFORCEMENT

Drug trafficking through Panama had existed since the early 1970s, but it exploded in scale during the 1980s as Colombian cartels developed industrial-scale cocaine production and needed sophisticated logistics to move product into the United States. Panama's geography

made it ideal for trafficking—strategically located between South American production and North American markets, with extensive coastlines, minimal coast guard capabilities, and banking laws that facilitated money laundering. What transformed Panama from a transit route into a narco-state was Noriega's decision to actively protect and profit from the traffic rather than merely tolerating it.

The Medellín Cartel, controlled by Pablo Escobar and the Ochoa brothers, established operations in Panama in the early 1980s with Noriega's explicit permission. The arrangement was straightforward: the cartel could use Panamanian territory for cocaine processing laboratories, transshipment operations, and money laundering in exchange for payments to Noriega personally and to PDF officers who protected specific operations. The amounts involved were staggering by any measure. Conservative estimates suggest Noriega received at least two hundred million dollars from drug traffickers between 1982 and 1989, though the actual total may have been significantly higher given the difficulty of tracking illegal payments and the incentives all parties had to conceal the scale of the transactions.

The mechanics of the arrangement were sophisticated. Cocaine paste from Peruvian and Bolivian coca fields would be flown to laboratories in the Darién jungle on Panama's eastern border, where it was processed into cocaine powder. The finished product was then smuggled into the United States via various routes—hidden in shipping containers passing through Panamanian ports, flown in small aircraft to landing strips in Mexico or Central America, or transported by boat to Caribbean islands. The proceeds, primarily in US dollars, would be deposited in Panamanian banks using shell corporations and false documentation. The banks would then wire the money to accounts throughout the international financial system, effectively laundering it through multiple jurisdictions until its criminal origins became untraceable.

Noriega's PDF protected these operations through multiple mechanisms. Military checkpoints that normally would have intercepted drug shipments instead provided security. Radar installations that could have detected aircraft transporting drugs were ordered to look the other way. When American Drug Enforcement Administration agents operating in Panama developed intelligence about specific trafficking operations, Noriega would tip off the traffickers, allowing them to relocate or suspend operations temporarily. On the few occasions when the Americans insisted on raids that Noriega couldn't prevent, he would ensure that the targets were minor operations that could be sacrificed without significantly disrupting the major trafficking routes.

The Reagan administration knew about Noriega's drug involvement from early in his rule but made a deliberate calculation to tolerate it. The 1980s were the peak of Reagan's confrontation with leftist movements in Central America. The Sandinista government in Nicaragua was supported by Cuba and the Soviet Union, and the Reagan administration was obsessed with preventing Nicaragua from serving as a base for communist expansion throughout the region. The administration supported the Contras—right-wing insurgents fighting to overthrow the Sandinistas—through a combination of official aid and covert operations that would eventually explode into the Iran-Contra scandal.

Noriega was useful to this strategy in multiple ways. He provided intelligence on Cuban activities in Central America. He allowed the CIA to use Panama as a base for operations supporting the Contras. He facilitated arms shipments to anti-communist forces throughout the region. His relationship with both Cuba and the Medellín Cartel—apparently contradictory given that Cuba officially opposed drug trafficking—actually made him more valuable because he could operate across ideological boundaries that constrained more principled actors. The Reagan administration's calculation was brutally pragmatic: Noriega's drug trafficking was a problem, but his anti-communist utility was more important. As long as the Cold War continued, that calculation held.

This created a bizarre situation where the same American government was simultaneously paying Noriega through the CIA and investigating him through the DEA. Noriega received between one hundred thousand and two hundred thousand dollars annually from the CIA throughout the 1980s while DEA agents were collecting evidence of his drug trafficking that would eventually be used to indict him in American courts. When DEA agents complained about Noriega's protection of traffickers, they were told by their superiors that national security priorities took precedence over drug enforcement. When journalists began reporting on Noriega's involvement in trafficking in the mid-1980s, Reagan administration officials downplayed the allegations and emphasized Noriega's cooperation with American security interests.

The corruption extended beyond drug trafficking to virtually every aspect of Panamanian society. Noriega sold Panamanian passports to criminals and terrorists from around the world, including members of Middle Eastern terrorist organizations and Latin American guerrilla movements. He allowed North Korea to establish a diplomatic presence in Panama that was actually a cover for arms trafficking and counterfeiting operations. He took bribes from businesses seeking government contracts, extorted money from foreign companies operating in Panama, and embezzled funds from state enterprises. Every significant economic transaction in Panama during the Noriega years required paying tribute to the dictator or his associates. The amounts extracted were systematic and comprehensive enough that Noriega's personal fortune—much of it hidden in bank accounts throughout Europe and Latin America—probably exceeded five hundred million dollars by the time he was overthrown.

The Panamanian elite's response to this corruption was pragmatic calculation rather than principled opposition. Some elite families profited directly by facilitating Noriega's schemes—banking executives who knowingly processed drug money, lawyers who created shell corporations for money laundering, businessmen who served as fronts for Noriega's investments. Others simply accepted the corruption as the cost of doing business, paying whatever bribes were necessary to maintain their operations while hoping the situation wouldn't get bad enough to trigger American intervention. A few elite individuals and families opposed Noriega, but they were in the minority and faced real risks if they challenged him too openly.

What began to turn the elite against Noriega was not moral outrage about drug trafficking but the realization that his recklessness was threatening the stability that commerce required. The offshore banking sector that had made many elite fortunes depended on international

confidence in Panama's financial system. As evidence of Noriega's drug involvement became public knowledge in the mid-1980s, that confidence eroded. International banks became reluctant to maintain correspondent relationships with Panamanian institutions. Foreign investors postponed projects. The tourism industry that had developed around Panama's beaches and biodiversity suffered as the country's reputation deteriorated. By 1987, significant portions of the Panamanian elite had concluded that Noriega had become a liability whose removal was necessary to restore Panama's commercial viability.

III. THE COLLAPSE OF AMERICAN TOLERANCE

The convergence of circumstances that destroyed Noriega's usefulness to the United States began with events in the Soviet Union that seemed entirely unrelated to Panama. Mikhail Gorbachev's rise to power in 1985 and his subsequent policies of glasnost and perestroika fundamentally altered the Cold War dynamic that had made Noriega valuable to American intelligence. As the Soviet threat receded and communist expansion in Latin America became less plausible, the strategic calculation that had led the Reagan administration to tolerate a drug-trafficking dictator no longer held. By 1988, with the Cold War clearly ending, Noriega's anti-communist intelligence was worth less than the diplomatic and domestic political costs of protecting him.

The collapse of American tolerance had multiple specific triggers. In June 1986, Seymour Hersh published a devastating article in The New York Times detailing Noriega's drug trafficking, money laundering, and relationship with the Medellín Cartel. The article included specific allegations backed by extensive documentation that made it impossible for the Reagan administration to claim ignorance. When Hersh's reporting won a Pulitzer Prize and was followed by investigative journalism from other major outlets, the drug war politics of the late 1980s made it increasingly difficult for American officials to defend maintaining relationships with known traffickers. The irony that the CIA had been paying Noriega while he worked with drug cartels became a political liability that even Cold War imperatives couldn't justify once those imperatives weakened.

In February 1988, federal grand juries in Miami and Tampa indicted Noriega on drug trafficking, racketeering, and money laundering charges. The indictments detailed specific incidents of Noriega protecting cocaine shipments, accepting bribes from cartel leaders, and allowing Panama to be used as a transshipment point for drugs destined for American cities. The decision to indict a sitting head of state was unprecedented and reflected the Reagan administration's calculation that publicly breaking with Noriega was now less costly than continuing to protect him. The indictments made it impossible for the United States to maintain official relations with Noriega and triggered an escalating confrontation that would end with invasion.

Noriega responded to American pressure with characteristic belligerence. Rather than negotiating a graceful exit or accepting American offers to drop the indictments in exchange for resignation, he dug in and attempted to rally nationalist sentiment against American imperialism. This was a fundamental miscalculation that revealed how poorly Noriega understood Panamanian politics. Torrijos had been able to mobilize nationalism because he combined anti-imperialism with genuine improvements in living standards and because he had negotiated the canal treaties that transferred sovereignty to Panama. Noriega had done neither. His nationalism was purely rhetorical, deployed cynically to justify drug trafficking and kleptocracy. When he attempted to present his confrontation with the Americans as a struggle for Panamanian sovereignty, most Panamanians saw through the pretense.

The Reagan administration imposed comprehensive sanctions in March 1988, freezing Panamanian government assets in American banks and prohibiting American companies from making payments to the Noriega regime. The sanctions were designed to create economic chaos that would either force Noriega to resign or provoke a coup by Panamanian military officers who would calculate that removing him was necessary to restore economic stability. The impact was immediate and devastating. Panama's dollarized economy depended on access to American financial systems and trade relationships. When those were cut off, businesses couldn't pay suppliers, banks couldn't process transactions, and the government couldn't meet payroll. Within weeks, unemployment soared, businesses closed, and middle-class Panamanians who had tolerated Noriega as long as the economy functioned began demonstrating against him.

The Civic Crusade that emerged in 1987 and intensified after the sanctions represented Panama's business and professional classes demanding Noriega's removal. Demonstrations in Panama City brought tens of thousands into the streets wearing white shirts and waving white handkerchiefs in a gesture of peaceful protest that recalled similar middle-class movements against dictatorships throughout Latin America. The protests were notable for what they were not: they were not led by labor unions, not organized by leftist political parties, and not demanding economic transformation. They were demanding stability, the restoration of constitutional rule, and the removal of a dictator whose recklessness threatened commerce. The Panamanian elite was trying to save itself by mobilizing against Noriega, hoping that demonstrations would either force him to resign or convince the Americans that Panama was ready for regime change.

Noriega responded to the protests with selective repression that demonstrated his understanding of which constituencies could be safely suppressed and which could not. Student demonstrators were beaten by riot police and PDF troops. Opposition political leaders were harassed, some were arrested, a few were tortured. But the business leaders who organized the Civic Crusade were generally left alone or subjected only to economic pressure rather than direct violence. Noriega understood that killing or torturing elite protesters would guarantee American intervention, while repressing students and lower-class demonstrators carried minimal risk. This calculation held until December 1989, when his forces killed an American Marine at a PDF checkpoint in circumstances that remain disputed but that provided the immediate pretext for invasion.

The killing of Marine Lieutenant Robert Paz on December 16, 1989 was probably accidental—a confrontation at a checkpoint escalated when PDF soldiers opened fire on a car that failed to stop, killing Paz and wounding another American officer. But accident or not, it gave President George H.W. Bush the justification he needed for military intervention. Bush had been Reagan's vice president during the years when the administration tolerated Noriega, and he was personally embarrassed by accusations that he had known about Noriega's drug trafficking while heading the CIA in the mid-1970s. The indictments, the sanctions, and the Civic Crusade had failed to remove Noriega, and Bush had concluded by late 1989 that only invasion would work.

The decision to invade reflected calculations that extended beyond Panama. Bush wanted to demonstrate American power at a moment when the Cold War's end was creating uncertainty about American global dominance. The invasion would show that even without the Soviet threat to justify interventions, the United States would act decisively to protect its interests and remove governments it found intolerable. The operation would also serve domestic political purposes, allowing Bush to appear tough on drugs and distancing him from the previous administration's tolerance of Noriega. Finally, the invasion would test new military technologies and tactics—including the first combat use of F-117 stealth bombers—that had been developed during the 1980s but never used operationally.

IV. OPERATION JUST CAUSE: THE INVASION

Twenty-seven thousand American troops invaded Panama beginning at 1:00 AM on December 20, 1989 in an operation that combined overwhelming technological superiority with carefully planned precision strikes designed to decapitate the PDF while minimizing American casualties. The operation's name—Just Cause—reflected the American narrative that intervention was justified both by Noriega's drug trafficking and by his declaration of a "state of war" with the United States following the Paz killing. The invasion was the largest American military operation since Vietnam and demonstrated that the post-Cold War American military could project force rapidly and decisively when political leadership decided intervention served national interests.

The initial assault involved simultaneous attacks on twenty-seven targets throughout Panama. Special forces teams assaulted Noriega's headquarters in Panama City while paratroopers from the 82nd Airborne Division secured Torrijos International Airport. F-117 stealth bombers—making their combat debut—struck PDF barracks and communications facilities. Helicopter gunships attacked the Comandancia, the PDF's main headquarters in central Panama City, with such intensity that the building was reduced to rubble and surrounding neighborhoods caught fire. Infantry units moved through Panama City, Colón, and smaller towns, engaging PDF units that attempted resistance and securing key infrastructure including the canal, major bridges, and government buildings.

The PDF fought back in some locations but was hopelessly outmatched. Noriega had approximately fifteen thousand troops under his nominal command, but many had no interest in dying for a dictator they despised and either surrendered immediately or simply went home. The units that did resist—particularly the Dignity Battalions that Noriega had organized as paramilitary forces—were quickly overwhelmed by American firepower. The technological gap was so vast that PDF resistance was largely futile. American troops had night vision equipment, precision weapons, helicopter support, and real-time intelligence, while PDF forces had small arms and limited training. Within forty-eight hours, organized resistance had collapsed and American forces controlled all strategically significant locations.

The casualty figures became immediately controversial and remain disputed. The American military reported twenty-three American soldiers killed and 325 wounded. PDF casualties were reported as 314 killed, though this figure included both PDF soldiers and the Dignity Battalion paramilitaries. The civilian death toll was far more uncertain and politically contentious. The Pentagon initially claimed 202 Panamanian civilian deaths, but independent investigations suggested significantly higher numbers. Human rights organizations estimated between 500 and 3,000 civilian deaths, with the wide range reflecting the difficulty of documenting casualties in poor neighborhoods where fighting was intense and where residents had every reason to fear both American forces and PDF remnants.

The highest civilian casualties occurred in Chorrillo, a working-class neighborhood surrounding the Comandancia where the American assault on PDF headquarters had been concentrated. The intense bombardment set fires that spread through the densely packed wooden structures that housed thousands of poor Panamanians. Residents fled with whatever possessions they could carry, creating scenes of chaos that were broadcast internationally and complicated the American narrative of liberation. The destruction of Chorrillo—approximately three thousand homes destroyed, fifteen thousand people displaced—became a symbol for critics of the invasion who argued that American violence against poor Panamanians exceeded anything Noriega had done.

Noriega himself escaped the initial assault and spent the next two weeks evading capture while American forces searched for him. He moved between safe houses, considered fleeing to Cuba or Nicaragua, and eventually sought refuge in the Papal Nuncio—the Vatican's diplomatic mission—on December 24. The Americans surrounded the building and began psychological operations designed to drive him out, including blasting rock music at high volume continuously for days. The absurd image of American soldiers playing loud music to force a dictator out of the Vatican embassy captured the surreal quality of the invasion's final act. On January 3, 1990, after negotiations with Vatican officials who wanted him out of their mission, Noriega surrendered to American forces.

Within hours, Noriega was on an American military aircraft flying to Miami, where he was formally arrested and charged with the drug trafficking and racketeering offenses detailed in the 1988 indictments. His trial in 1992 was a media spectacle that laid out in extraordinary detail the corruption of his regime. Noriega was convicted on eight of ten counts and sentenced to forty years in prison, later reduced to thirty. He served seventeen years in American prisons before

being extradited to France in 2010 for money laundering convictions, then returned to Panama in 2011 where he was imprisoned for murders committed during his dictatorship. He died in May 2017 at age eighty-three, having spent the last twenty-seven years of his life in various prisons paying for crimes that had made him wealthy when American priorities made his activities useful.

V. ELITE RESPONSE: WELCOMING INVASION AS RESTORATION

The Panamanian elite's response to the American invasion revealed everything about Panama's power structure and the conditional nature of sovereignty that had characterized the country since 1903. When American troops secured Panama City and installed Guillermo Endara as president—he had won the 1989 election that Noriega had annulled—the elite families who controlled banking, commerce, and real estate largely welcomed the intervention. Their nationalism, such as it had ever been, proved subordinate to the material interests that defined elite existence.

This wasn't simply collaboration with foreign occupiers. The elite had concluded that Noriega threatened their interests more than American intervention did. The sanctions had devastated the banking sector that many elite fortunes depended on. International investors were avoiding Panama. The reputation for stability that had attracted offshore banking and logistics companies was being destroyed by Noriega's antics. The elite calculation was straightforward: removing Noriega and restoring American confidence in Panama's stability was worth the humiliation of foreign invasion. A few days of fighting, some property damage, and the installation of an American-approved government were acceptable costs if they led to the reopening of banks, the lifting of sanctions, and the restoration of normal commercial relations.

The pattern was identical to 1903, when elite families had collaborated with the American-backed coup that separated Panama from Colombia. In both cases, the elite chose dependence on American power over attempts at genuine sovereignty because American hegemony guaranteed the stability that elite wealth required. In 1903, collaboration had been rewarded with access to canal-related commerce that made elite fortunes. In 1989, collaboration would be rewarded with American aid, restored banking relationships, and opportunities to profit from the privatization and neoliberal restructuring that would characterize the 1990s.

Not all Panamanians welcomed the invasion. The poor residents of Chorrillo who lost their homes, the families who lost members to American fire, and nationalists who saw the invasion as imperialism regardless of Noriega's crimes protested American presence and demanded compensation for damages. But these voices were politically marginalized, lacking the institutional power or international connections to make their opposition consequential. The elite-controlled media emphasized Noriega's crimes and the necessity of his removal while

minimizing civilian casualties and American responsibility for destruction. Within weeks of the invasion, the dominant narrative—promoted by both the new Panamanian government and American officials—was that Operation Just Cause had been a liberation that freed Panama from dictatorship.

The installation of Guillermo Endara as president completed the restoration. Endara was from an elite family, educated in the United States, and committed to the neoliberal economic policies that Washington favored. His government would privatize state enterprises, protect offshore banking, implement free trade policies, and align Panama closely with American interests. The PDF was disbanded and replaced by a national police force that lacked heavy weapons or the capacity to threaten either internal elite power or American interests. The constitutional reforms implemented under Endara prohibited Panama from having a standing army—a provision that remains in effect and that ensures Panama will never have the military capacity to resist American intervention should Washington decide future intervention is necessary.

The invasion thus proved what Torrijos had tried to overcome and what Noriega had made grotesquely obvious: Panama's sovereignty was conditional on American acquiescence. A small country created by a superpower for that superpower's strategic purposes could never achieve the genuine independence that the nationalist rhetoric of the Torrijos years had promised. The canal treaties negotiated in 1977 would be honored and Panama would gain control of the canal on December 31, 1999, but the invasion demonstrated that treaty obligations meant nothing when American power decided intervention served American interests. The Neutrality Treaty's provision allowing American intervention to "defend the canal" could be interpreted broadly enough to justify whatever Washington wanted.

VI. ASSESSMENT: SOVEREIGNTY AS AMERICAN PERMISSION

The Noriega years from 1981 to 1989 demonstrated the corruption of nationalist dictatorship into kleptocracy and the reassertion of American hegemony through military invasion. Torrijos's legacy—the canal treaties that promised eventual Panamanian sovereignty—survived intact, but the invasion proved that sovereignty would be conditional on Panamanian governments serving American interests. The pattern established in 1903 had adapted but not broken: elite wealth depended on American tolerance, Panamanian independence existed only insofar as it didn't threaten American power, and when push came to shove, American military force would remind everyone that Panama's geographic importance made genuine autonomy impossible.

Noriega's personal trajectory from intelligence asset to drug trafficker to federal prisoner revealed the transactional nature of American power in Latin America during the Cold War. As long as Noriega served American anti-communist objectives, his drug trafficking was tolerated despite clear evidence and despite the Reagan administration's declared war on drugs. When the Cold War ended and Noriega's intelligence became less valuable, he was indicted,

sanctioned, and eventually removed by force. The lesson was clear: American tolerance for authoritarian clients in Latin America depended entirely on whether those clients served American strategic interests. Morality, democracy, and human rights were rhetorical justifications deployed when convenient but ignored when inconvenient.

For the Panamanian elite, the invasion validated their strategy of collaborating with whoever held power while protecting their core economic interests. The families who controlled banking and commerce had prospered under Spanish colonialism by managing the treasure trade, under Colombian rule by controlling Panama's limited economy, under American hegemony from 1903 to 1968 by intermediating canal-related commerce, under Torrijos by accepting nationalist dictatorship that protected offshore banking, and under Noriega by tolerating corruption until it threatened stability. The invasion allowed them to welcome American intervention as liberation, position themselves as victims of Noriega's excesses, and prepare to profit from the neoliberal restructuring that American-backed governments would implement in the 1990s.

The three monopolies at the end of 1989 had been radically restructured but remained fundamentally intact in their distribution of power. Wealth was still concentrated in elite families, though the specific mechanisms of accumulation would shift as privatization and neoliberalism replaced state-led development. Violence had been monopolized by American forces, with the PDF disbanded and replaced by a police force designed to maintain internal order without threatening American interests or elite power. Information had become more pluralistic but remained dominated by elite-owned media that promoted narratives favorable to elite interests. The invasion had removed Noriega, but it had not transformed the power structure that Noriega had exploited.

The final irony was that the invasion strengthened rather than weakened Panama's role as a service economy subordinate to external powers. With the PDF eliminated and constitutional prohibitions on standing armies, Panama could never develop the military capacity to resist future interventions. The banking sector would be rebuilt under stricter American oversight that reduced money laundering but maintained Panama's attractiveness for legitimate offshore finance. The canal handover scheduled for 1999 would proceed as the treaties mandated, but Panama's ability to use canal control for genuinely autonomous foreign policy had been circumscribed by the demonstration that American power would intervene whenever Washington determined Panamanian actions threatened American interests.

END OF PART 6

Total Panama case study progress: Parts 1-6 complete (~66,500 words)

Pattern demonstrated: Noriega corrupted Torrijos's nationalist project into narco-kleptocracy, taking $200M+ in drug bribes while on CIA payroll ($100K-200K/year). US tolerated this during Cold War (anti-communist intelligence > drug trafficking concerns) but turned against him

1986-1989 as Soviet threat ended. Indictments (1988), sanctions (economic crisis), then invasion (December 20, 1989): 27,000 US troops, 23 US dead, 314 PDF dead, 300-3,000 civilians dead (disputed). Elite welcomed invasion (removed threat to their interests, restored stability). Demonstrates ultimate small-state vulnerability: US created Panama (1903), invaded when convenient (1989), proved sovereignty conditional on American acquiescence. Neutrality Treaty's intervention right validated through practice. Next: Post-invasion neoliberalism (1990-1999), canal handover (1999), contemporary period (2000-2025).

PANAMA CASE STUDY - PART 7

Elite Power Under Extreme External Constraint (1501-2025)

PART 7: POST-INVASION NEOLIBERALISM AND CANAL HANDOVER (1990-1999)

"Restoration and Transfer: Elite Prosperity Through Strategic Adaptation"

PROLOGUE: A CEREMONY'S DOUBLE MEANING

Panama City, December 31, 1999

María Elena Arias stood among the crowd of fifty thousand Panamanians gathered at the Administration Building in Balboa to witness the canal handover ceremony. She was seventy-two years old, a retired teacher who had spent her entire adult life in a country defined by the canal she had never controlled. Her father had worked on the canal during the American construction, employed on the Silver Roll doing the dangerous excavation work that white Americans on the Gold Roll supervised for triple the pay. She had been born in 1927 in a Silver Roll housing unit just outside the Canal Zone, close enough to see American prosperity but excluded from it by racial hierarchies that determined who could enter which gates and use which facilities.

María Elena had lived through every phase of Panama's struggle with the canal. She remembered the 1947 Filos-Hines Treaty protests when she was twenty, already teaching and watching her students march against continued American control. She had been in Panama City during the 1964 Flag Riots, hearing the gunfire and later attending funerals for students killed by American soldiers. She had supported Torrijos when he negotiated the treaties that promised eventual Panamanian control, though she had been skeptical that the Americans would actually honor the commitment. She had opposed Noriega and his corruption, but she had also watched American bombs destroy Chorrillo during the invasion, killing people she knew and displacing thousands more in the name of liberation.

Now, on the last day of the twentieth century and the ninety-sixth anniversary of Panama's American-orchestrated separation from Colombia, she was watching the American flag come down and the Panamanian flag rise over territory that had been sovereign United States soil since 1903. The symbolism was overwhelming. Around her, people were crying—some from joy at finally controlling their country's most valuable asset, others from grief for those who had died in the long struggle and wouldn't see this moment, still others from uncertainty about whether

this transfer would actually change anything fundamental about Panama's relationship with American power.

The ceremony was carefully choreographed to emphasize both historic significance and continuity of friendly relations. President Mireya Moscoso—Panama's first female president and the widow of Arnulfo Arias, the nationalist leader who had been removed by coups three times—stood alongside former American President Jimmy Carter, who had signed the treaties twenty-two years earlier. American military units presented flags in perfectly synchronized movements while Panamanian officials prepared to receive them. The speeches emphasized partnership, mutual respect, and the successful completion of a twenty-year transition that had transferred not just control but operational capability to Panamanian personnel trained to run the canal as efficiently as the Americans had.

But María Elena noticed details that complicated the triumphalist narrative. The ceremony was held at noon on a Friday, timed so that American forces could complete their withdrawal before midnight while ensuring maximum media coverage. But the Neutrality Treaty remained in force, guaranteeing American ships priority passage and preserving the American right to intervene militarily if Washington determined the canal's neutrality was threatened. The American bases were closing, but American military aircraft would retain overflight rights and American warships would continue transiting the canal. The Americans were leaving, but they weren't really gone.

She also noticed who was positioned where during the ceremony. The Panamanian officials receiving control were from the same elite families who had prospered under American hegemony since 1903. The bankers, the lawyers, the businessmen who controlled the logistics companies and real estate around the canal were positioned to capture the enormous revenues that canal operations would generate. The poor residents of the neighborhoods surrounding the canal—the descendants of Silver Roll workers, the families displaced by decades of American control—were in the crowd like María Elena, watching from a distance as power transferred between elites.

The handover would make Panama wealthy. Canal revenues would jump from the token annuity the Americans had paid to hundreds of millions of dollars annually, eventually reaching billions. The expanded economy that the canal enabled—logistics, transshipment, offshore banking, ship registration—would make Panama one of Latin America's most prosperous countries by per capita GDP. But María Elena wondered whether that prosperity would reach the neighborhoods where she had taught for forty years, where children still attended overcrowded schools and families still struggled with poverty despite living next to one of the world's most valuable commercial assets.

As the American flag came down and the Panamanian flag rose, the crowd erupted in cheers that María Elena joined despite her ambivalence. The transfer was real, the achievement was genuine, and ninety-six years of formal American sovereignty over Panamanian territory was ending. But she had lived long enough to understand that sovereignty and equality were different things. Panama would control the canal, but the pattern established in 1903—elite families prospering by intermediating flows while most Panamanians remained poor—would

continue under Panamanian management as it had under American management. The hegemon was changing form, becoming less visible and less direct, but the fundamental structure of who benefited from Panama's strategic location remained untransformed.

I. ENDARA AND RECONSTRUCTION: NEOLIBERALISM AS RESTORATION

Guillermo Endara became president of Panama at 1:00 AM on December 20, 1989 in a ceremony conducted on a United States military base while American troops were invading the country he was about to govern. The circumstances of his inauguration—literally under American military protection while American bombs fell on Panamanian neighborhoods—symbolized the nature of the government he would lead for the next five years. Endara was from a wealthy family, educated at Louisiana State University and New York University, trained as a lawyer in the tradition of Panama's elite professional class. He had won the May 1989 election that Noriega annulled, and he had genuine democratic legitimacy in that narrow sense. But he took office as the direct result of foreign invasion, installed by American power, and committed to implementing the neoliberal economic policies that Washington favored and that would restore the conditions for elite accumulation that Noriega's recklessness had threatened.

The immediate priority was restoring order and reopening the economy. The invasion had been swift and decisive militarily, but it left significant physical damage and complete economic paralysis. The Comandancia and surrounding Chorrillo neighborhood were rubble and ash. Government buildings had been occupied or damaged during fighting. The banking system remained frozen with accounts inaccessible and international transactions suspended. Businesses throughout Panama City had been looted during the chaos of invasion, with damages running into hundreds of millions of dollars. Thousands of Panamanians were displaced, either by combat damage or by deliberate American destruction of neighborhoods suspected of harboring PDF resistance. The country needed immediate reconstruction assistance that only the United States could provide.

American aid flowed quickly, both as humanitarian relief and as political investment in ensuring the post-invasion government succeeded. The Bush administration committed over four hundred million dollars in emergency assistance during 1990 alone, with additional hundreds of millions following in subsequent years. This money rebuilt destroyed infrastructure, compensated businesses for invasion damages, and funded the retraining of Panamanian workers to operate institutions that the Americans had controlled. The aid was generous by American standards but came with explicit conditions. Panama would implement market-friendly policies, privatize state enterprises where feasible, maintain the offshore banking sector under stricter money laundering controls, and align foreign policy with American interests. Endara accepted these conditions without resistance because they aligned with his ideological commitments and elite class interests.

The first and most symbolically important decision was abolishing the Panama Defense Forces entirely. The PDF had been the institutional foundation of military rule since the 1968 coup, and its dissolution eliminated the only organization capable of challenging either elite power or American influence. Endara created a National Police force limited to internal security functions—twelve thousand officers armed with small arms and riot control equipment but prohibited from possessing heavy weapons, artillery, or combat aircraft. The constitutional reform that formalized this arrangement prohibited Panama from maintaining a standing army, making the country one of a handful globally without military forces capable of national defense or external power projection.

This was presented as democratization—eliminating the military that had overthrown elected governments and ruled as dictatorship for twenty-one years. But it also ensured permanent Panamanian dependence on American military power for external security and guaranteed that no future Panamanian government could resist American intervention through force. The PDF's abolition was popular among Panamanians traumatized by military dictatorship and among the elite who understood that a professional military was the only institution that might challenge their economic dominance. The arrangement suited everyone except those who believed Panama should have the capacity for independent defense of its sovereignty, and those voices were politically marginal in the post-invasion environment.

Economic policy followed textbook neoliberal prescriptions. Panama had used the American dollar as its currency since 1904, which meant the country couldn't devalue to address trade imbalances or print money to finance government spending. This dollarization was formalized and expanded, making Panama's economy almost completely integrated into American financial systems. Privatization of state enterprises accelerated, with water systems, telecommunications, and electricity generation sold to private investors—often foreign corporations or joint ventures between foreign capital and Panamanian elite families. The sales generated revenue for the cash-strapped government but transferred public assets to private control and eliminated government employment that had provided middle-class jobs during the Torrijos and Noriega years.

Labor policy shifted decisively in favor of employers. Minimum wage increases slowed, union organizing faced new legal obstacles, and strikes were increasingly criminalized through court injunctions and police intervention. The corporatist labor relations that Torrijos had built—allowing unions institutional recognition while subordinating them to state control—gave way to more conventional capital-labor relations where employers had clear advantages. Union density declined from approximately sixty thousand members in the early 1980s to perhaps forty thousand by the mid-1990s as privatization eliminated public sector jobs where unions had been strongest and as employers in the growing private sector resisted organization.

The offshore banking sector required careful reconstruction. Panama's reputation as a haven for money laundering had been destroyed by revelations about Noriega's drug trafficking and the role Panamanian banks had played in facilitating cocaine proceeds laundering. International financial institutions and foreign banks were reluctant to maintain correspondent relationships with Panamanian banks until money laundering controls improved. The Endara government

implemented new banking regulations, created financial intelligence units, and cooperated with American drug enforcement investigations in ways that Noriega never had. These reforms reduced the most egregious money laundering but maintained Panama's attractiveness for legitimate offshore banking and tax optimization.

The result was a banking sector that was smaller but more sustainable than during the Noriega years. By the mid-1990s, Panama had approximately one hundred fifty registered banks—down from over two hundred during the corruption peak but still positioning Panama as a major offshore financial center. The elite families who controlled domestic banks prospered from the restructuring by positioning themselves as legitimate intermediaries for international capital rather than facilitators of criminal enterprises. The banking sector's share of GDP stabilized at fifteen to twenty percent, providing tens of thousands of jobs and generating significant tax revenue even as the industry's criminal associations were reduced.

Endara himself was personally honest but politically weak and increasingly unpopular. He had taken office because the Americans installed him, not through any political organizing or popular mobilization of his own. His legitimacy derived from having won the 1989 election, but that election had occurred under Noriega's dictatorship and had been annulled. By 1993, Endara's approval ratings had collapsed as Panamanians blamed his government for high unemployment, incomplete reconstruction, and the perception that elite families had captured the benefits of peace while ordinary Panamanians continued struggling. When elections approached in 1994, Endara's political movement had minimal support and he didn't seriously contest for reelection.

The broader assessment of the Endara years was that they successfully restored elite power and integrated Panama into American-led globalization while failing to address the fundamental inequalities that had characterized the country since 1903. Economic growth resumed—GDP grew at five to seven percent annually from 1991 through 1994 as the reconstruction boom and renewed international confidence generated investment. But unemployment remained high, poverty affected approximately thirty percent of the population, and the Gini coefficient measuring inequality stayed above 0.55, among the worst in Latin America. The physical destruction from the invasion was repaired, the banking system was reopened, and constitutional order was nominally restored. But the poor who had lost homes in Chorrillo received inadequate compensation, the families of those killed during the invasion received minimal recognition, and the promises of reconstruction reaching working-class neighborhoods largely went unfulfilled.

II. PÉREZ BALLADARES AND CANAL PREPARATIONS

Ernesto Pérez Balladares—universally known by his nickname "El Toro" (The Bull)—won the May 1994 presidential election representing the Democratic Revolutionary Party that Torrijos had founded. His victory seemed improbable given that the PRD had been Noriega's political

vehicle and that many Panamanians associated the party with dictatorship and corruption. But Pérez Balladares was skilled at distancing himself from Noriega while claiming Torrijos's nationalist legacy. He presented himself as a modernizing technocrat who would complete the canal transfer while maintaining the market-friendly policies that business interests demanded. His campaign attracted support from both nationalist Panamanians who wanted the canal returned and elite interests who trusted him to protect property rights and commercial stability.

Pérez Balladares came from the elite himself—his family had banking and real estate interests, he had studied economics at Notre Dame, and he had worked in international finance before entering politics. He understood the Panamanian elite's core interests and shared their worldview. But he also understood that successfully completing the canal transfer required demonstrating nationalist credentials and delivering material benefits to working-class Panamanians who would otherwise question why they should support the PRD after the Noriega disaster. His presidency balanced these imperatives by implementing policies that benefited the elite while using canal-related projects to generate employment and claiming credit for the historic achievement of actually assuming control.

The technical preparations for canal transfer dominated the final five years before the December 1999 handover. The United States had begun training Panamanian workers to operate the canal during the 1980s as the treaties required, but accelerated training intensified in the 1990s. Thousands of Panamanians needed to master the complex technical operations required to run a waterway that handled forty ships daily passing through six sets of locks requiring precise water management. American engineers spent years training Panamanian counterparts in electrical systems, hydraulics, mechanical maintenance, tugboat operations, and the intricate piloting required to guide massive container ships through channels barely wider than the ships themselves.

The creation of the Autoridad del Canal de Panamá in 1997 established the autonomous agency that would operate the canal after American withdrawal. The ACP was structured as an independent entity insulated from day-to-day political interference, with a board of directors appointed by the president but serving fixed terms and required to include technical experts rather than political appointees. The model was designed to prevent the corruption that had characterized Panamanian state enterprises under previous governments and to maintain the operational efficiency that had characterized American management. The ACP would collect all toll revenues, manage its own budget, and remit payments to the national government based on formulas designed to ensure both adequate canal investment and significant government revenue.

This arrangement reflected elite interests in multiple ways. The ACP's independence meant that populist politicians couldn't raid canal revenues for unsustainable spending programs or employ canal operations as patronage opportunities. The technical requirements for ACP positions meant that the educated professional class—disproportionately from elite families—would dominate the agency's leadership. The revenue-sharing formulas ensured the government received substantial payments but protected the canal from being treated as a short-term cash machine. Elite families positioned to profit from canal operations—those controlling logistics

companies, shipping agencies, and businesses serving the maritime trade—wanted operational efficiency maintained because their profits depended on ships choosing the Panama route rather than alternatives.

Pérez Balladares also oversaw significant privatization of state enterprises that Endara had begun but not completed. The telecommunications monopoly was sold to international investors, generating over six hundred million dollars that the government used to finance infrastructure and reduce debt. Electricity generation was privatized, with foreign companies purchasing generating plants and the government retaining transmission infrastructure. The Port of Balboa and other port facilities were transferred to private operators under long-term concessions that required investment in modernization while allowing the operators to capture efficiency gains. These privatizations were controversial because they eliminated public sector employment and transferred profitable assets to private control, but they generated the revenue that the government needed to finance canal transfer preparations and other projects.

The economic results during the Pérez Balladares years were positive by conventional metrics but distributed unequally. GDP growth averaged six percent annually from 1994 through 1999, unemployment declined from over fifteen percent to under twelve percent, and inflation remained low thanks to dollarization. The banking sector expanded as international confidence returned and money laundering reforms made Panama more acceptable to foreign financial institutions. Real estate prices in Panama City increased dramatically as the approaching canal handover attracted investment and speculation about future prosperity. The stock market—small but growing—appreciated substantially as investors anticipated privatization benefits and canal revenues.

But poverty remained above twenty-five percent, rural areas saw minimal benefit from urban growth, and indigenous communities in the interior provinces continued living in conditions that resembled the 1950s more than the prosperous 1990s. The Gini coefficient stayed stubbornly above 0.55 despite growth, indicating that prosperity was flowing overwhelmingly to the already wealthy. Working-class families in Panama City and Colón saw some improvement—employment increased, wages rose modestly, and consumer goods became more available—but not the transformation that nationalist rhetoric about controlling the canal had promised. The pattern was familiar: growth benefited elite investors and the professional middle class, provided limited gains for urban workers, and bypassed the rural poor and marginalized populations entirely.

The final preparations for handover accelerated in 1998 and 1999. American military bases began closing systematically, with equipment shipped back to the United States and facilities transferred to Panamanian control. Fort Clayton, Fort Kobbe, and a dozen smaller installations that had housed tens of thousands of American troops were decommissioned and transferred. Some would become Panamanian government facilities, others were converted to commercial uses, and some remained vacant for years as Panama struggled to find productive purposes for military infrastructure designed around Cold War strategic requirements. The departure of American military personnel eliminated approximately ten thousand jobs held by Panamanians

who had worked on bases, creating immediate economic disruption in communities that had depended on American military spending for decades.

The ceremony planning for December 31, 1999 involved months of diplomatic negotiations about symbolism, protocol, and messaging. Both governments wanted the event to emphasize friendly partnership and successful transition rather than American withdrawal under duress or Panamanian victory over imperialism. The compromise was a ceremony that acknowledged historic significance while avoiding triumphalism that might offend either American sensibilities or Panamanian nationalism. Jimmy Carter's attendance was symbolically important—the president who had signed the treaties would witness their fulfillment. The presence of twenty-seven other heads of state from throughout the hemisphere demonstrated international recognition of the transfer's significance.

III. THE HANDOVER: DECEMBER 31, 1999

The actual transfer occurred at noon on December 31, 1999 during a ceremony attended by fifty thousand Panamanians and broadcast throughout the hemisphere. The choreography was meticulous. American and Panamanian honor guards stood at attention while anthems played and flags were exchanged. President Mireya Moscoso—who had defeated Pérez Balladares's chosen successor in the 1999 election—accepted formal transfer documents from American officials. The Panama Canal Authority assumed operational control from the Panama Canal Commission that Americans had managed. The moment was captured in countless photographs and video clips that would be replayed for years: the American flag coming down, the Panamanian flag rising, and the visible emotion of Panamanians watching sovereignty return after ninety-six years.

What transferred to Panamanian control was substantial and undeniable. The canal itself—fifty miles of waterway, six sets of locks, dams, reservoirs, power plants, and all the support infrastructure required to move fourteen thousand ships annually between two oceans. The former Canal Zone territory—553 square miles that had been sovereign American soil and that now became Panamanian land available for development. The American military bases—hundreds of buildings, thousands of acres, port facilities, and airfields that would eventually house Ciudad del Saber (City of Knowledge), an education and technology complex, and other commercial developments. Most importantly, all future toll revenues—which would increase from roughly six hundred million dollars in 1999 to over five billion dollars by 2024.

The economic impact was immediate and dramatic. The government's revenue from canal operations jumped from the token annuity the Americans had paid to hundreds of millions of dollars annually. This money financed infrastructure throughout the country—new highways connecting Panama City to interior provinces, expanded airport facilities, port modernization, and social programs that had been unfunded during the lean years of American control. The multiplier effects were even larger as businesses positioned to serve canal operations

expanded, employment in logistics and maritime services increased, and Panama's role as a transshipment hub attracted foreign investment.

But the transfer also made clear what remained unchanged. The Neutrality Treaty stayed in force, guaranteeing the canal's neutrality and preserving American rights to intervene militarily if Washington determined the canal's operation was threatened. American warships retained priority passage rights, and American military forces could return to Panama if American presidents decided intervention was necessary. The treaty had no expiration date—the American intervention right was permanent. This meant that Panama's sovereignty over the canal remained conditional in the same way Panama's sovereignty over its entire territory had always been conditional. The Americans were gone in daily operational terms, but they could return if circumstances required.

The pattern of who benefited from the canal's economic impact also remained fundamentally unchanged. The elite families who controlled logistics companies, shipping agencies, banking, and commercial real estate around the canal captured the largest share of increased revenues. The ACP employed approximately nine thousand workers directly—good jobs with good wages but a tiny fraction of Panama's workforce. The government revenue from the canal funded infrastructure and services that theoretically benefited all Panamanians, but the distribution was uneven. Panama City and its metropolitan area received the majority of investment, while rural provinces and indigenous territories remained marginalized. The gap between urban prosperity and rural poverty widened rather than narrowed despite the canal revenues that were supposed to transform the entire country.

Indigenous peoples—who constituted approximately twelve percent of Panama's population and lived primarily in autonomous comarcas in the interior—saw virtually no benefit from canal control. The Guna, Ngäbe-Buglé, Emberá, and other indigenous groups continued living in conditions of poverty that shocked international observers who visited communities lacking running water, electricity, or paved roads just a few hours from Panama City's gleaming skyscrapers. The canal revenues that were making Panama one of Latin America's wealthiest countries weren't reaching the communities whose ancestors had lived on the isthmus for thousands of years before Spanish conquest. This exclusion was structural rather than accidental—indigenous territories were politically marginalized, their populations lacked the education and connections to access canal-related employment, and government investment decisions reflected urban elite priorities rather than rural indigenous needs.

The handover thus represented genuine achievement and unchanged structure simultaneously. Panama had regained sovereignty over its most valuable asset after nearly a century of American control. The canal would generate enormous wealth that expanded the economy and funded government services. Panamanians operated the canal as efficiently as the Americans had, proving that the technical transfer had succeeded. But the fundamental pattern established in 1903—elite families prospering by intermediating flows while most Panamanians remained poor—continued under Panamanian management. The hegemon had changed form, becoming less visible and less direct, but the structure of who benefited from Panama's strategic location remained essentially the same.

IV. ASSESSMENT: SOVEREIGNTY REGAINED, INEQUALITY PRESERVED

The decade from 1990 to 1999 demonstrated both the possibilities and the limits of nationalist achievement in a small state created by and dependent on superpower patronage. The canal handover was real—Panama genuinely controlled the waterway and would capture all future revenues. The Americans genuinely withdrew, closing bases and ending the formal sovereignty over the Canal Zone that had existed since 1903. The constitutional prohibition on standing armies reduced the likelihood that Panama would face the military coups that had plagued the country from 1968 to 1989. These were substantive changes that improved Panama's position relative to the previous ninety-six years.

But the changes occurred within constraints that ensured continuity in fundamental power structures. The Neutrality Treaty preserved American intervention rights that could be invoked whenever Washington determined Panama's canal management threatened American interests. The neoliberal restructuring implemented under Endara and continued under Pérez Balladares privatized public assets and eliminated state capacity to pursue redistributive policies even if future governments wanted to. The abolition of the PDF removed the only institution that might have challenged elite economic dominance or resisted American pressure. The structure of the ACP and the revenue-sharing formulas protected the canal from being used for populist spending but ensured that canal revenues primarily benefited those already positioned to profit from Panama's role in global trade.

The three monopolies at the end of 1999 revealed both transformation and continuity. Wealth remained concentrated in the hands of elite families who controlled banking, logistics, real estate, and commerce. The canal handover would enrich these families because they owned the businesses that serviced canal operations and the land that would appreciate as canal revenues expanded the economy. The gap between rich and poor remained among the worst in Latin America despite Panama's growing prosperity. Violence had been partially redistributed—the PDF was gone, the Americans had withdrawn, and the National Police managed internal security. But American intervention rights remained permanent, and Panama's constitutional prohibition on armies ensured the country could never resist American force. Information had become pluralistic with independent media, high literacy, and free speech, but elite-owned media remained dominant and shaped narratives in ways that protected elite interests.

The pattern that emerged was classic elite adaptation. The elite had welcomed American invasion in 1989 because Noriega threatened their interests. They had supported neoliberal restructuring in the 1990s because it positioned them to profit from privatization. They had backed canal transfer because they controlled the businesses that would benefit from canal operations. At each transition, elite families adapted to changing circumstances while preserving their fundamental advantages. The form of elite power changed—less direct American colonial

administration, more Panamanian institutional autonomy, shifts from military dictatorship to electoral democracy—but the substance of who controlled wealth and how that control was maintained showed remarkable continuity.

The question was whether future governments could use canal revenues to genuinely transform this pattern or whether the structural constraints—American intervention rights, constitutional limits on state capacity, elite capture of economic institutions—would prevent redistribution even with billions of dollars in canal income flowing to the government. The answer would become clear in the twenty-first century as Panama grew wealthy while remaining profoundly unequal, as Chinese investment created new dependencies that complicated American hegemony, and as elite families continued prospering by adapting to whoever controlled the commercial flows that Panama's geography made inevitable.

END OF PART 7

Pattern demonstrated: Post-invasion neoliberalism (1990-1999) restored elite power through Washington Consensus policies—privatization, dollarization, deregulation. PDF abolished (constitutional prohibition on army), National Police created (12,000 officers, no heavy weapons). Canal handover (December 31, 1999) genuine achievement: Panama gained control, revenues jumped from $600M→billions. But sovereignty remained conditional (Neutrality Treaty = permanent US intervention right). Elite captured canal benefits (logistics, banking, real estate), inequality persisted (Gini 0.55+, 25%+ poverty). Demonstrates elite adaptation pattern: welcomed invasion (1989), profited from privatization (1990s), positioned to benefit from canal transfer (1999). Sovereignty increased but constrained by structural limits preventing redistribution. Next: Contemporary period (2000-2025) covering canal expansion, China-US competition, extreme inequality despite prosperity, Trump threats, indigenous marginalization.

PANAMA CASE STUDY - PART 8

Elite Power Under Extreme External Constraint (1501-2025)

PART 8: CONTEMPORARY PANAMA (2000-2025)

"Wealthy Nation, Poor People: When Strategic Location Guarantees Prosperity for Some"

PROLOGUE: A BANKER'S VIEW FROM THE TOWER

Panama City, December 2024

Eduardo Castillo stood in his corner office on the forty-second floor of Torre de las Américas overlooking the Bay of Panama, watching container ships queue for canal passage. He was fifty-eight years old, managing partner of one of Panama's largest investment banks, and the fourth generation of his family in finance. His great-grandfather had founded the bank in 1925 with capital accumulated from serving as agent for American shipping companies using the canal. His grandfather had expanded it during the postwar boom. His father had survived the Noriega years by diversifying into offshore banking and real estate. Eduardo himself had positioned the bank to profit from the canal expansion and Chinese investment that had transformed Panama in the twenty-first century.

From his office, Eduardo could see the physical manifestation of Panama's transformation. The skyline that had been modest in 1999 now bristled with dozens of skyscrapers—residential towers housing wealthy Latin Americans seeking second homes, office buildings for multinational corporations using Panama as their regional headquarters, hotels serving the cruise ship industry that had exploded since the canal expansion. The Trump Ocean Club tower dominated the view, its distinctive sail shape visible from anywhere in the city, a monument to the real estate boom that had made Panama City one of the most expensive cities in Latin America.

But Eduardo's attention this morning was fixed on his phone, where he was reading news about Donald Trump's latest threats to "take back" the Panama Canal. Trump had declared at a rally in Arizona that Panama was charging American ships "ridiculous" tolls and that the United States might need to reclaim control. The statement had caused panic in Panamanian financial markets. Eduardo's bank had fielded dozens of calls from nervous clients asking whether their Panama-based assets were secure, whether the Americans would actually invade again, and

whether they should move money to other jurisdictions. Eduardo had spent the morning reassuring clients while privately calculating what Trump's threats meant for his own portfolio.

The irony was bitter. Panama had spent decades fighting for sovereignty over the canal, had finally achieved it in 1999, and had operated the waterway more profitably and efficiently than the Americans ever had. Canal revenues had grown from six hundred million dollars in 1999 to over five billion dollars in 2024. The expansion completed in 2016—a five-and-a-quarter-billion-dollar project that added a third set of locks capable of handling the massive container ships that couldn't fit through the original locks—had been an engineering triumph that attracted global attention. Panama had proven it could manage its most valuable asset successfully. And still, twenty-five years after handover, an American president could casually threaten to seize it back and everyone understood the threat was credible because the Neutrality Treaty explicitly preserved American intervention rights.

Eduardo understood better than most how precarious Panama's prosperity was. His bank managed billions in assets for clients throughout Latin America who used Panama for the same reasons his great-grandfather had prospered—the country's strategic location, its dollarized economy that facilitated transactions, its banking laws that protected privacy while maintaining enough regulatory credibility to access international financial systems, and its political stability guaranteed by the understanding that American power would intervene if that stability was threatened. The offshore banking that had made his family wealthy depended on this arrangement. The Panama Papers scandal in 2016 had exposed how Panamanian banks facilitated tax evasion for global elites, but the fundamental business model had survived because everyone—American policymakers, Latin American oligarchs, European investors—benefited from having a stable jurisdiction where money could be parked with minimal oversight.

But Eduardo also understood that this arrangement required Panama to remain useful to American power. The canal had to stay open and affordable for American ships. Panama couldn't align too closely with China despite the billions in Chinese investment flowing into ports and infrastructure. The banking sector had to crack down on money laundering when Americans demanded it while maintaining enough secrecy to remain attractive for legitimate capital. The elite families who controlled the economy—perhaps thirty to forty families including Eduardo's—had to ensure that Panama served American interests even as Chinese competition created opportunities for diversification. It was a delicate balance that had sustained Eduardo's prosperity and would determine whether his children inherited the same advantages.

Looking down at the city, Eduardo could see both the prosperity and its limits. The skyscrapers were real, the canal revenues were real, the GDP per capita that made Panama the wealthiest country in Central America was real. But beyond the glossy downtown, neighborhoods existed that looked like the 1960s rather than the 2020s. The indigenous territories in the interior provinces lacked running water and electricity while tourists in Panama City hotels enjoyed luxury that would have impressed visitors in New York or Singapore. The inequality that Eduardo's great-grandfather had prospered from—the gap between those who controlled the

flows of capital and goods through Panama and those who merely provided labor—had widened despite all the nationalist rhetoric about controlling the canal.

Trump's threats would probably amount to nothing, Eduardo thought. The Americans didn't actually want to run the canal—managing it was expensive and attracted criticism. They wanted Panama to remain subordinate, to remember that sovereignty was conditional, and to understand that Chinese investment couldn't substitute for American power. The threats were intimidation, reminding everyone that the Neutrality Treaty meant exactly what it said: the Americans could intervene whenever they determined intervention served their interests. Eduardo would tell his clients that their assets were safe, that Panama would accommodate American demands, and that the system that had enriched four generations of his family would continue enriching his children. The pattern established in 1501 when Spanish ships first recognized the isthmus's strategic value would persist because geography determined Panama's fate and great powers would always control strategic chokepoints regardless of which flags flew or which governments claimed sovereignty.

I. THE CANAL EXPANSION: ENGINEERING TRIUMPH, ELITE ENRICHMENT

The decision to expand the Panama Canal with a third set of locks capable of handling larger ships was made in 2006 through a national referendum that passed with seventy-eight percent approval. The project would cost 5.25 billion dollars, take ten years to complete, and transform Panama's position in global shipping by allowing the massive container ships and tankers that had become standard in international trade but couldn't fit through the original 1914 locks. The referendum result reflected broad Panamanian support for a project that promised thousands of jobs during construction, increased canal revenues afterward, and enhanced national prestige through demonstrating that Panama could undertake and complete a world-class engineering project without American assistance.

The expansion was indeed an engineering achievement that compared favorably to the original canal construction. The new locks were built alongside the existing ones rather than replacing them, allowing canal operations to continue during construction while expanding capacity. Each new lock chamber measured 1,400 feet long, 180 feet wide, and 60 feet deep—significantly larger than the original locks and capable of handling ships carrying three times the cargo. The locks used one-third less water per transit than the original design through an innovative system of water-saving basins that recycled water between chambers. The project employed over thirty thousand workers at its peak, sourcing materials from around the world while training Panamanian engineers and technicians in cutting-edge construction techniques.

But the expansion also demonstrated the continuity of patterns established during American canal construction a century earlier. The contractors were international corporations rather than Panamanian companies—the main consortium included Spanish construction giant Sacyr,

Italian engineering firm Salini Impregilo, Belgian dredging company Jan De Nul, and Panamanian company Constructora Urbana. These firms employed Panamanian workers but captured the largest share of the 5.25 billion dollar budget through profits, management fees, and procurement. The Panamanian elite families who owned logistics companies, provided services to the construction consortium, and controlled real estate around the canal profited enormously from the expansion without directly building it.

The project faced cost overruns, labor disputes, and construction delays that pushed completion from the planned 2014 date to June 2016. The final cost exceeded six billion dollars when cost overruns and financing charges were included. These overruns generated intense political controversy as critics argued that better project management could have delivered the expansion for the original budget. Investigations revealed that the ACP had underestimated complexity, that contractors had submitted unrealistically low bids expecting to renegotiate later, and that design changes during construction had added costs that hadn't been anticipated. But the overruns also generated additional revenue for the contractors and elite intermediaries who managed the complex negotiations over change orders and additional payments.

The expanded canal opened on June 26, 2016 with a ceremony attended by thousands and broadcast globally. The first ship through the new locks was a Chinese container vessel—a symbolic choice that reflected China's importance as a canal customer and investor in Panama. The vessel carried Chinese manufactured goods bound for American ports, physically embodying the trade relationship that made the canal valuable. The transit was flawless, demonstrating that Panamanian operators could manage the new infrastructure as capably as they had operated the original locks. President Juan Carlos Varela presided over the ceremony, claiming credit for a historic achievement that positioned Panama for decades of prosperity from increased canal revenues.

The economic impact was immediate and substantial. Canal revenues, which had grown steadily from six hundred million dollars in 1999 to approximately two billion dollars in 2015, jumped to 2.6 billion in 2017 and continued growing to over five billion dollars by 2024. The expansion allowed the canal to capture traffic from the massive Neo-Panamax container ships that had previously been too large to transit, increasing both the number of transits and the tolls charged per transit. The revenue growth exceeded projections, validating the expansion's economic logic and generating billions in government income that could theoretically fund social programs and infrastructure throughout the country.

But the distribution of these benefits followed predictable patterns. The approximately nine thousand workers directly employed by the ACP earned middle-class wages and enjoyed secure employment, but they represented less than one percent of Panama's workforce. The logistics companies that serviced ships transiting the canal—ship agents, chandlers, fuel suppliers, tugboat operators, pilots' associations—were controlled by a handful of elite families who captured enormous profits from the expansion. The real estate boom around the canal entrances in Panama City and Colón enriched landowners who had owned property before the expansion was announced. The banking sector that financed canal-related commerce and handled the massive toll revenues profited from the increased transaction volume.

The government revenue from the canal did fund infrastructure throughout the country. The Panama Metro—a modern subway system connecting Panama City's downtown to outlying neighborhoods—was financed partly through canal revenues and transformed urban transportation for hundreds of thousands of daily riders. The Cinta Costera, a coastal highway and waterfront development in Panama City, was built with canal money and created public spaces that improved quality of life for city residents. Scholarships for university students increased, healthcare spending expanded, and infrastructure in rural provinces received investment that had been impossible during the lean years before canal control.

Yet poverty remained above twenty percent of the population, rural provinces continued lacking basic services that urban areas took for granted, and indigenous territories saw minimal benefit from the billions flowing through the canal. The expansion made Panama wealthier as a nation while the structure of who captured that wealth remained fundamentally unchanged. The elite families who had prospered from intermediating Spanish treasure flows in the 1600s, serving American canal administration in the 1900s, and managing offshore banking in the late 1900s adapted to profit from expanded canal operations in the 2000s. Geography continued to determine Panama's value. Elite power continued to determine who benefited from that value.

II. EXTREME INEQUALITY IN A WEALTHY NATION

By 2024, Panama had achieved a GDP per capita of approximately eighteen thousand dollars, making it the wealthiest country in Central America and comparable to some Eastern European nations. The economy had grown at an average of five to seven percent annually for two decades, outpacing most of Latin America and attracting international attention as a development success story. The World Bank classified Panama as an upper-middle-income country, and sophisticated financial infrastructure, modern urban centers, and integration into global trade networks suggested a country that had successfully leveraged its strategic location to achieve prosperity.

But beneath these aggregate statistics, Panama exhibited some of the worst inequality in the hemisphere. The Gini coefficient measuring income inequality ranged between 0.49 and 0.51 depending on measurement methodology—among the highest in Latin America and comparable to South Africa and Brazil. This meant that while the country was wealthy on average, that wealth was concentrated in a small elite while substantial portions of the population remained poor. Approximately twenty percent of Panamanians lived below the national poverty line, with rates approaching seventy percent in indigenous territories. The gap between the wealthiest ten percent and the poorest forty percent was wider in 2024 than it had been in 1999 despite canal revenues supposedly transforming the entire economy.

Wealth concentration was even more extreme than income concentration. The top ten percent of Panamanian households controlled approximately seventy to seventy-five percent of all wealth, with the top one percent holding perhaps forty to forty-five percent. Land ownership,

corporate equity, banking assets, and real estate were concentrated in perhaps thirty to forty elite families whose names appeared repeatedly across different sectors. The Arias family, the Eleta family, the Motta family, and others had maintained elite status across generations by diversifying investments, controlling strategic businesses, and adapting to changing political circumstances while preserving their fundamental advantages.

The mechanisms of elite wealth accumulation in contemporary Panama reflected both historical continuity and adaptation to twenty-first-century capitalism. Banking remained central—Panama's 150 registered banks controlled assets exceeding one hundred billion dollars, with domestic banks controlled by elite families capturing significant shares. The offshore banking sector that had survived the Noriega scandals and the Panama Papers exposure continued generating enormous profits through wealth management, trust services, and financial intermediation for clients throughout Latin America and beyond. The regulatory environment struck a careful balance between international compliance demands and maintaining the secrecy and flexibility that made Panama attractive for tax optimization.

Real estate became an increasingly important source of elite wealth as Panama City's skyline transformed. The luxury residential market catered to wealthy Latin Americans seeking second homes in a stable, dollarized jurisdiction with modern infrastructure and low crime rates compared to their home countries. Developers—often joint ventures between Panamanian elite families and international construction firms—built dozens of towers selling condominiums for prices that exceeded comparable properties in Miami or Madrid. The commercial real estate market expanded to serve multinational corporations establishing regional headquarters, law firms opening offices to serve clients using Panama's corporate law, and hotels capturing the growing tourism and business travel markets.

Logistics became a fourth pillar of elite wealth alongside banking, real estate, and traditional commerce. The Colón Free Zone—a duty-free transshipment center that had existed since 1948—grew into a fifteen-billion-dollar-per-year operation that employed thousands and generated substantial revenue for the families who controlled warehousing, transportation, and distribution. The ports at both canal entrances, operated under long-term concessions by international port operators, generated fees that enriched both the foreign operators and their Panamanian partners. Ship registration—Panama operated one of the world's largest ship registries—generated hundreds of millions in annual fees while requiring minimal government expenditure.

The concentration of wealth in these sectors meant that the benefits of Panama's strategic location flowed overwhelmingly to those who owned the businesses that intermediated global commerce. A ship transiting the canal might pay five hundred thousand dollars in tolls to the ACP, generating government revenue. But that same ship would also pay fees to the ship agent who handled paperwork, the pilot who guided it through the canal, the tugboat company that assisted docking, the chandler who supplied provisions, the fuel supplier who refueled it, and the port operator who loaded or unloaded cargo. These fees—which could total several hundred thousand additional dollars per ship—went to private companies controlled by elite families.

Multiply this by the fourteen thousand ship transits annually and the aggregate profit to elite-controlled businesses exceeded the canal tolls paid to the government.

Meanwhile, the poor remained poor despite national prosperity. In the neighborhoods surrounding Panama City's gleaming downtown—areas like El Chorrillo, rebuilt after the 1989 invasion, or Juan Díaz, or San Miguelito—families lived in circumstances that shocked visitors who expected a wealthy country to provide better for its working class. Housing was overcrowded and poorly maintained, schools were underfunded and overcrowded, healthcare clinics lacked equipment and staff, and crime made daily life precarious. The dollarized economy that facilitated elite commerce made life difficult for the poor because prices approached Miami levels while wages remained a fraction of American standards. A working-class family might spend sixty percent of household income on rent and food, leaving little for education, healthcare, or savings.

Rural poverty was worse. In the interior provinces—Veraguas, Coclé, Los Santos—where agriculture remained the primary economic activity, small farmers struggled with low prices for their products, limited access to credit, and minimal government investment in rural infrastructure. The same government that financed luxury metro lines in Panama City couldn't provide reliable electricity or paved roads to rural communities. Schools in rural areas lacked qualified teachers and basic supplies. Clinics, when they existed, were staffed by recent medical graduates doing mandatory rural service before moving to urban private practice. The disconnect between urban prosperity and rural poverty was so dramatic that Panama seemed like two countries occupying the same territory.

Indigenous peoples faced the most extreme marginalization. The seven indigenous groups—Guna, Ngäbe-Buglé, Emberá, Wounaan, Naso Tjër Di, Bri Bri, and Bokota—collectively constituted about twelve percent of Panama's population but accounted for over forty percent of those living in extreme poverty. In the comarcas where indigenous peoples had limited autonomy, poverty rates exceeded seventy percent. Children suffered from malnutrition at rates comparable to Sub-Saharan Africa. Life expectancy was fifteen years lower than the national average. Literacy rates lagged decades behind urban areas. These conditions persisted despite constitutional provisions supposedly protecting indigenous rights and despite canal revenues that should have funded development throughout the country.

The political economy of inequality was self-perpetuating. The wealthy sent their children to private schools or universities abroad, ensuring educational advantages that translated into professional success. Elite networks created through schools, family connections, and business relationships provided access to opportunities that were unavailable to children from working-class or poor families. Campaign finance rules that supposedly limited donations were easily evaded, allowing the wealthy to fund candidates who would protect their interests. Media ownership was concentrated in elite families who ensured that coverage emphasized stability and growth rather than challenging inequality. The democratic institutions that existed—regular elections, freedom of speech, independent judiciary—functioned but within constraints that prevented them from redistributing power or wealth.

III. THE PANAMA PAPERS AND OFFSHORE BANKING

On April 3, 2016, the International Consortium of Investigative Journalists published the first stories based on the Panama Papers—11.5 million documents leaked from Mossack Fonseca, a Panamanian law firm that specialized in creating offshore shell companies and trusts for wealthy clients worldwide. The leak was the largest data breach in history and exposed how global elites used Panama's legal infrastructure to hide assets, evade taxes, and launder money. The documents implicated twelve current or former heads of state, dozens of political leaders, celebrities, and business executives, revealing a shadow financial system that existed parallel to legitimate commerce and that cost governments worldwide hundreds of billions in lost tax revenue.

Mossack Fonseca had created over two hundred thousand shell companies for clients in more than two hundred countries. The firm charged modest fees—sometimes as little as one thousand dollars to establish a company, plus a few hundred annually to maintain registration—but the volume was enormous and the service valuable to clients who needed to hide ownership. A shell company registered in Panama with nominee directors could own assets in other jurisdictions, making it nearly impossible for tax authorities or investigators to trace ultimate beneficial ownership. The leaked documents showed how this worked in practice: a Russian oligarch placing embezzled state funds in London real estate through a Panamanian company, a Latin American politician hiding bribes in Swiss bank accounts through Panamanian trusts, a European corporation evading taxes by routing profits through Panamanian subsidiaries.

The revelations were devastating to Panama's reputation and triggered global demands for financial transparency reforms. Several European countries blacklisted Panama as a non-cooperative tax jurisdiction. The OECD threatened sanctions. International banks became more reluctant to process transactions involving Panamanian entities. The government scrambled to demonstrate commitment to transparency, implementing new beneficial ownership disclosure requirements and cooperating with international investigations. Mossack Fonseca itself collapsed, unable to survive the reputational damage, and its founders faced criminal investigation for money laundering and tax evasion.

But the Panama Papers also revealed that Mossack Fonseca was only one firm among many providing similar services, and that Panama's offshore industry was built on legal infrastructure deliberately designed to facilitate secrecy. The broader business model survived because the wealthy clients who used Panama's services needed what Panama offered, and because enough powerful interests benefited from the system's continuation. Within two years of the scandal, the offshore industry had largely recovered. New firms replaced Mossack Fonseca, offering similar services with more sophisticated compliance procedures designed to provide plausible deniability while continuing to hide beneficial ownership.

The Panamanian elite's response to the scandal demonstrated their understanding that defending offshore banking was essential to their prosperity. Rather than embracing transparency reforms that might have satisfied international demands, the government implemented minimal changes that created appearance of compliance while preserving the substance of secrecy. Beneficial ownership registries were created but access was restricted to law enforcement through cumbersome procedures that made investigation difficult. Reporting requirements increased but enforcement remained lax. The legal and accounting professionals who profited from offshore services—many from elite families or aspiring to join the elite—successfully lobbied to protect their business model.

The scandal validated critics' arguments that Panama's prosperity was partly built on facilitating tax evasion and money laundering for global elites, but it didn't fundamentally change the system because too many powerful interests depended on its continuation. The offshore banking sector contributed fifteen to twenty percent of GDP, employed tens of thousands of professionals, and generated government revenue through business licensing and transaction taxes. Elite families controlled the law firms, accounting firms, and trust companies that serviced offshore clients. Dismantling the industry would have required elite sacrifice that they were unwilling to make, and international pressure was insufficient to force compliance because wealthy clients in powerful countries depended on Panama's services.

IV. CHINA-US COMPETITION AND GEOPOLITICAL CONSTRAINTS

The most significant development in Panamanian foreign policy in the twenty-first century was the decision in June 2017 to establish diplomatic relations with the People's Republic of China and sever ties with Taiwan, which Panama had recognized since 1912. The decision reflected Chinese economic influence that had grown dramatically during the previous two decades. Chinese companies controlled ports at both canal entrances through long-term concessions. China was the canal's second-largest customer by tonnage after the United States. Chinese investment in Panamanian infrastructure exceeded four billion dollars and was growing. The diplomatic recognition formalized what had become economic reality: China mattered more to Panama's future than maintaining recognition of a government that controlled no territory relevant to Panamanian interests.

The Chinese-operated ports demonstrated the pattern. Hong Kong-based Hutchison Whampoa had controlled port facilities at Balboa and Cristóbal since the 1990s through fifty-year concessions granted before the canal handover. The company invested over a billion dollars modernizing the facilities, installing massive cranes capable of loading and unloading the largest container ships, and expanding capacity to handle the increased traffic that canal expansion would generate. The ports became critical infrastructure in global supply chains, handling containers moving between Asian manufacturers and American consumers. Chinese control

meant that Beijing had influence over supply chains that American commerce depended on, creating the strategic competition that alarmed Washington.

Chinese infrastructure investment extended beyond ports to include potential rail lines connecting the Pacific and Atlantic coasts, a fourth bridge over the canal, and telecommunications infrastructure. The scope of Chinese involvement triggered American concerns that Panama was becoming too dependent on Beijing and that Chinese companies might be gathering intelligence or positioning infrastructure for potential military use. The Trump administration and later the Biden administration pressured Panama to limit Chinese access to strategic assets, warning that excessive Chinese influence could trigger responses that Panama wouldn't like. But Panama needed Chinese investment and couldn't afford to reject it without alternative funding sources.

This created the fundamental dilemma of Panama's geopolitical position in the twenty-first century. The canal remained most valuable to American commerce—roughly seventy percent of cargo transiting the canal was bound for or originated from the United States. American warships still used the canal and the Neutrality Treaty preserved American intervention rights. Panama's dollarized economy meant complete integration into American financial systems. But China was willing to invest in infrastructure that the Americans weren't funding, Chinese companies paid canal tolls that generated revenue Panama needed, and Chinese diplomatic recognition brought prestige and access to development financing.

Panamanian governments attempted to balance these competing pressures by maintaining close relationships with both powers while avoiding commitments that would force choosing sides. This balancing act was sustainable as long as US-China competition remained primarily economic. But if the relationship deteriorated into outright confrontation—particularly if military conflict emerged over Taiwan or other issues—Panama would face impossible choices. Siding with China would trigger American intervention under the Neutrality Treaty. Siding with the United States would forfeit Chinese investment and potentially make the canal a target. Attempting neutrality would satisfy neither power and could result in pressure from both.

Trump's threats in December 2024 to "take back" the canal explicitly invoked this competition. Trump claimed that China was "operating" the canal—a falsehood, since the Panamanian-run ACP controlled operations while Chinese companies merely operated ports—and that Panama was charging American ships excessive tolls. Neither claim was accurate. The ACP set tolls through a transparent process that treated all customers equally, and American ships paid the same rates as ships from any other country. But the threats weren't really about tolls. They were about asserting American dominance and reminding Panama that sovereignty remained conditional on serving American interests.

The threats worked because Panama had no viable response. The country had no military capable of resisting American force. The economy depended on American commerce and financial access. The elite families who controlled Panamanian politics overwhelmingly preferred American hegemony to Chinese dominance because their wealth was denominated in dollars, held in American banks, and dependent on access to American markets. When Trump

threatened intervention, Panamanian President José Raúl Mulino responded with careful diplomatic language emphasizing that Panama respected the Neutrality Treaty, that the canal served all nations equally, and that Panama valued partnership with the United States. The response was subordinate, calibrated to reassure Washington without provoking nationalist backlash domestically.

The pattern was identical to every previous moment when American power had been asserted. In 1903, when the Americans backed the coup separating Panama from Colombia, the elite had accepted subordination in exchange for prosperity. In 1989, when the Americans invaded to remove Noriega, the elite had welcomed intervention as restoring stability. In 2024, when Trump threatened to seize the canal, the elite would accommodate American demands to preserve the system that enriched them. The rise of Chinese influence had created options that hadn't existed previously, but those options remained constrained by the fundamental reality that Panama's strategic location made genuine independence impossible when great powers competed for control.

V. POLITICAL PATTERNS: ELITE DOMINANCE THROUGH DEMOCRATIC FORMS

The political history of Panama from 2000 to 2025 demonstrated that electoral democracy could function while elite power remained essentially unchallenged. Five presidents served during this period—Mireya Moscoso (1999-2004), Martín Torrijos (2004-2009), Ricardo Martinelli (2009-2014), Juan Carlos Varela (2014-2019), and Laurentino Cortizo (2019-2024), succeeded by José Raúl Mulino in 2024. Elections were free and fair by technical standards, with multiple parties competing and peaceful transfers of power. Yet every president either came from the elite or governed in ways that protected elite interests, and no genuinely leftist or redistributionist political force ever gained significant power.

Mireya Moscoso was the widow of Arnulfo Arias and represented his Panameñista Party, but her presidency was conservative and pro-business despite Arias's historical nationalism. Her administration privatized additional state enterprises, maintained neoliberal policies, and worked closely with the United States on security cooperation. Corruption scandals plagued her government, with several officials convicted of embezzlement and procurement fraud. Her approval ratings collapsed during her term, but she completed it and transferred power peacefully to her democratically elected successor.

Martín Torrijos, son of Omar Torrijos, won the 2004 election representing the PRD and claiming his father's nationalist legacy. But his government was fundamentally centrist and technocratic, focused on fiscal responsibility, canal expansion preparation, and attracting foreign investment. He implemented some progressive policies—expanded conditional cash transfers to poor families, invested in rural infrastructure, strengthened labor protections modestly—but nothing

that threatened elite wealth. His approval ratings remained high throughout his term because economic growth continued and he avoided the corruption that had plagued Moscoso.

Ricardo Martinelli represented a different pattern—a businessman from the supermarket sector who had accumulated enormous wealth and used it to win the presidency. His campaign promised change and efficiency, claiming that business experience would translate into good governance. His administration was marked by massive infrastructure spending—the Metro, the Cinta Costera, highway expansion—financed by economic growth and canal revenues. But it was also marked by extraordinary corruption, with Martinelli and his associates accused of embezzling hundreds of millions through procurement fraud and wiretapping opponents through illegal surveillance. He fled to Miami after his term ended to avoid prosecution, was extradited in 2018, and was eventually convicted and imprisoned for money laundering.

Juan Carlos Varela came to power in 2014 representing the Panameñista Party again, defeating Martinelli's preferred successor. His presidency oversaw the canal expansion completion and presided over the Panama Papers scandal. His response to the scandal—implementing minimal transparency reforms while protecting the offshore industry—demonstrated elite priorities clearly. His administration was less corrupt than Martinelli's but also less dynamic, governing cautiously and avoiding major policy initiatives that might threaten elite interests or create controversy.

Laurentino Cortizo, elected in 2019, governed during the COVID-19 pandemic and its economic aftermath. His response to the pandemic emphasized protecting the economy over public health, keeping businesses open as much as possible while implementing limited lockdowns. The economic contraction in 2020 was severe—GDP declined nearly twenty percent—but recovery was rapid as international trade resumed and canal traffic rebounded. Unemployment spiked but declined as growth returned. The poor bore the heaviest costs of pandemic and recovery while elite wealth remained largely protected.

The pattern across all five presidencies was elite continuity behind democratic rotation. Different parties won elections, different personalities governed, corruption scandals rose and fell, but the fundamental structure of elite economic dominance remained unchanged. No president attempted serious wealth redistribution through progressive taxation. No government nationalized major industries or challenged offshore banking fundamentally. No administration empowered labor unions to bargain effectively with capital or implemented land reform that would redistribute agricultural property. Every president accepted dollarization, neoliberal policy frameworks, and the understanding that maintaining elite confidence was essential to economic stability.

The absence of a viable left political force was striking compared to other Latin American countries. While Venezuela, Bolivia, Ecuador, Nicaragua, and even Uruguay developed leftist movements that won power and attempted redistribution, Panama never developed equivalent political organization. Several factors explained this absence. The service economy made class consciousness harder to develop than in countries with large industrial working classes or peasantries demanding land. The canal revenues allowed governments to fund social programs

sufficient to prevent desperation without requiring wealth redistribution. The constitutional prohibition on standing armies eliminated the institution that might have provided leftist movements with armed support or created conditions for revolution. American hegemony was so overwhelming that revolutionary movements understood they would be crushed immediately.

The 2023 mining protests demonstrated both popular capacity for resistance and its limits. When the government granted a Canadian mining company a forty-year contract to extract copper from an environmentally sensitive area, massive demonstrations erupted. Hundreds of thousands of Panamanians took to the streets for weeks, blocking highways and demanding the contract's cancellation. The movement united environmentalists, indigenous groups, urban workers, and middle-class families concerned about environmental destruction. The government eventually yielded, canceling the contract through a Supreme Court ruling that declared it unconstitutional. The victory was genuine and rare—a popular movement forcing elite retreat.

But the mining protests didn't threaten fundamental elite interests. The Canadian mining company wasn't controlled by Panamanian elite families, so canceling the contract didn't challenge domestic wealth. The environmental focus allowed middle-class participation without requiring them to support wealth redistribution. The movement remained carefully bounded, demanding protection from foreign extractivism but not challenging the elite extraction that had characterized Panama since 1501. Once the contract was canceled, the protests dissipated and politics returned to normal. Elite power remained intact.

VI. INDIGENOUS MARGINALIZATION: INTERNAL COLONIALISM

The indigenous peoples of Panama—constituting twelve percent of the population but accounting for over forty percent of extreme poverty—experienced marginalization so severe it constituted internal colonialism comparable to the external colonialism Panama had suffered under American control. The seven indigenous groups inhabited territories ranging from the Caribbean islands of the Guna Yala comarca to the mountain villages of the Ngäbe-Buglé territory to the rainforest communities of the Emberá and Wounaan in Darién. These comarcas had limited autonomy under Panamanian law, theoretically allowing indigenous self-governance while remaining part of Panama. But in practice, the arrangement left indigenous peoples impoverished, politically marginalized, and excluded from the prosperity that canal revenues supposedly generated for all Panamanians.

The statistics documenting indigenous poverty were damning. In the Ngäbe-Buglé comarca—Panama's largest indigenous territory with a population exceeding two hundred thousand—the poverty rate exceeded seventy percent and extreme poverty affected over fifty percent of residents. Child malnutrition rates approached levels seen in the poorest African countries. Only sixty percent of indigenous children completed primary education compared to ninety-five percent nationally. Life expectancy in indigenous territories was fifteen years lower

than the national average. Access to clean water, electricity, and paved roads remained limited despite these services being standard in urban Panama.

The causes of indigenous poverty were structural and reflected deliberate policy choices rather than inevitable outcomes. Indigenous territories received minimal government investment because indigenous peoples lacked political power to demand resources and because urban elites who controlled government prioritized urban infrastructure over rural indigenous development. The education system in indigenous territories functioned poorly because qualified teachers refused rural postings, because schools lacked funding for materials and facilities, and because curricula designed for urban Spanish-speaking students didn't accommodate indigenous languages or cultures. Healthcare clinics, when they existed, were understaffed and undersupplied because doctors preferred urban private practice to rural public service.

Economic development in indigenous territories was constrained by multiple factors. Land in the comarcas was collectively owned and couldn't be sold or used as collateral for loans, making it difficult for indigenous farmers to access credit for agricultural improvement. Government agricultural extension services rarely reached indigenous communities. Infrastructure necessary for commercial agriculture—roads to markets, storage facilities, processing plants—didn't exist. Indigenous farmers grew subsistence crops on small plots while the productive agricultural land in the accessible provinces was controlled by non-indigenous commercial farmers who produced for urban and export markets.

The political marginalization of indigenous peoples ensured their concerns remained peripheral to national policy. Indigenous representation in the National Assembly was minimal—perhaps three or four deputies out of seventy-one, and those few faced difficulty building coalitions around indigenous issues. Political parties competed for indigenous votes during elections but rarely delivered on promises after winning power. The canal revenues that were supposed to transform Panama never reached indigenous territories in meaningful amounts because government investment decisions reflected urban elite priorities. When indigenous communities protested marginalization, they were ignored unless protests threatened economic activity important to elite interests.

Environmental destruction in indigenous territories occurred with minimal consultation or compensation. Mining companies operated in indigenous areas extracting minerals while polluting rivers and destroying forests that indigenous communities depended on. Hydroelectric dams flooded indigenous lands, forcing relocations while providing electricity primarily to urban areas and industries. The 2023 mining protests demonstrated that indigenous concerns could mobilize broader support when environmental issues affected non-indigenous populations, but victories remained rare and didn't address the systematic exclusion that indigenous peoples faced daily.

The pattern of indigenous marginalization validated the framework's analysis of elite power operating through systematic exclusion. The Panamanian elite who controlled banking, logistics, and real estate derived no direct benefit from investing in indigenous territories. Indigenous

peoples weren't significant consumers of elite services, weren't politically organized enough to threaten elite power, and occupied territories that elite interests mostly ignored except when extractive industries wanted access. The result was benign neglect at best and active exploitation at worst, with indigenous peoples experiencing poverty in a wealthy country because elite wealth accumulation depended on concentrating resources in sectors and spaces where elite controlled economic activity.

VII. COMPREHENSIVE ASSESSMENT: 524 YEARS OF ELITE POWER (1501-2025)

The Panama case study covering 524 years from Spanish arrival in 1501 to contemporary 2025 demonstrates with exceptional clarity how elite power adapts across regime transformations while preserving fundamental advantages. Panama's history validates the theoretical framework's core insights: that elite continuity operates through strategic adaptation rather than static resistance, that sovereignty for small states with strategic assets remains conditional on great power acquiescence, and that service economies create different class dynamics than production-based economies but generate comparable inequality.

The fundamental pattern established during Spanish colonialism—elite wealth derived from intermediating flows rather than controlling production—persisted across five distinct political regimes. Under Spanish rule (1501-1821), elite families prospered by managing treasure routes, providing services to treasure fleets, and skimming profits from gold and silver flowing from Peru to Spain. Under Colombian rule (1821-1903), the elite attempted to preserve this intermediary role but suffered economic collapse when the California Gold Rush ended and treasure routes shifted. Under American hegemony (1903-1999), elite families rebuilt prosperity by servicing canal operations, controlling offshore banking, and intermediating between American power and Panamanian society. After canal handover (1999-2025), elite adapted again to profit from expanded canal revenues, Chinese investment, and continued offshore banking while maintaining subordinate relationship to American power.

This continuity across five centuries and five regime types demonstrates that elite power doesn't depend on specific political forms but on control of strategic economic positions. The families who prospered in 2025 weren't all descended from Spanish colonial elites—new families had joined the elite through successful business ventures, professional achievement, or political connections. But the structure of elite power remained consistent: a small group controlling banking, logistics, real estate, and commerce captured the enormous value generated by Panama's strategic location while the majority of Panamanians remained poor or working-class despite national prosperity.

The three monopolies framework reveals both the peculiarities and the patterns of Panamanian elite power. Wealth monopolization was extreme and persistent—the top ten percent controlled seventy to seventy-five percent of wealth across the entire 524-year period with variations

reflecting economic cycles but consistent concentration. Violence monopolization was the critical difference from cases like Japan, Sweden, or England. Panama's elite never monopolized violence because external powers—Spain, Colombia, United States—controlled military force throughout most of Panama's history. Even after the PDF was abolished in 1990 and Panama became one of the few countries without a standing army, the Neutrality Treaty preserved American intervention rights that meant violence remained monopolized by external power. Information monopolization evolved from near-total elite control during colonialism to pluralistic democracy by 2025, but elite-owned media remained dominant and shaped narratives that protected elite interests.

The elite coordination mechanisms in Panama were less institutionalized than in larger countries but equally effective. The small size of the elite—perhaps thirty to forty core families plus aspiring families in professional and business classes—meant that coordination could occur through informal networks rather than requiring formal organizations. Elite families intermarried, their children attended the same schools, they belonged to the same clubs, and they sat on each other's corporate boards. This density of connections created shared interests and collective identity that made coordination nearly automatic. When threats emerged—Torrijos's populism, the mining contract—elite coordinated responses without requiring formal meetings or explicit agreements.

The absence of effective worker resistance in Panama requires explanation because it contrasts with other Latin American cases. Uruguay developed the Tupamaros, Chile had powerful leftist movements, Nicaragua and El Salvador saw revolutionary guerrillas. Panama never developed equivalent organizations despite having working-class poverty comparable to other countries. Multiple factors explain this absence. The service economy made class consciousness harder to develop than in industrial or agricultural societies. The canal revenues allowed sufficient social spending to prevent desperation. American hegemony was so overwhelming that armed resistance seemed futile. The elite's intermediary role—serving external powers rather than directly exploiting Panamanian labor—made them harder to target than landlords or factory owners. These factors combined to prevent the revolutionary mobilization that appeared elsewhere.

The geopolitical constraints that defined Panama's development demonstrate the limits of sovereignty for small states controlling strategic assets. Panama was created by the United States for American strategic purposes in 1903. The canal handover in 1999 transferred operational control but the Neutrality Treaty preserved American intervention rights indefinitely. Trump's 2024 threats to "take back" the canal demonstrated that these rights remained real and could be invoked whenever Washington determined intervention served American interests. The rise of Chinese influence created options for Panama to diversify dependence, but those options remained bounded by American power. Panama could accept Chinese investment but couldn't align with China against the United States without risking intervention.

This geopolitical subordination shaped domestic elite power in fundamental ways. The Panamanian elite prospered by serving external hegemons—Spanish Empire, American Empire, and increasingly Chinese capital—rather than through autonomous accumulation. This

required maintaining relationships with whoever controlled the canal or wanted to use it, which meant the elite had to be internationally oriented rather than nationalist. The nationalism that appeared periodically—most successfully under Torrijos—was real but constrained because genuinely challenging American power would threaten the stability that elite wealth required. Elite families calculated that subordination was preferable to the chaos that resistance might create, and that calculation proved correct repeatedly.

The contemporary period demonstrated how inequality could persist and even worsen despite dramatic increases in national wealth. Canal revenues growing from six hundred million dollars in 1999 to over five billion dollars in 2024 should have transformed living standards for all Panamanians. Instead, the Gini coefficient remained above 0.49, poverty affected twenty percent of the population, and indigenous peoples lived in conditions comparable to the poorest countries globally. This wasn't an accident or a failure of development but the predictable outcome of elite capture. The revenues flowed through institutions that elite controlled, funded infrastructure that elite prioritized, and enriched businesses that elite owned. The poor received some benefits through expanded social programs, but the structure ensuring most gains flowed upward remained intact.

VIII. CONCLUSION: GEOGRAPHY AS DESTINY, ELITE AS CONSTANT

The Panama case study validates the framework's core thesis that elite power adapts rather than breaking across regime transformations and that small states controlling strategic assets cannot achieve genuine sovereignty when great powers compete for control. Five hundred twenty-four years of Panamanian history demonstrate with exceptional clarity that geography determines a nation's position in global hierarchies, that elite power emerges from controlling strategic economic positions regardless of political forms, and that subordination to external hegemons can be compatible with domestic elite prosperity.

Panama in 2025 was simultaneously one of Latin America's wealthiest countries and one of its most unequal. The canal that Panamanians had fought for decades to control generated billions in annual revenue and employed thousands in well-paid jobs. The offshore banking sector provided sophisticated financial services and employed tens of thousands of professionals. The logistics industry connecting Asia and the Americas created opportunities that would have been impossible without the canal. Panama City's skyline rivaled major global cities and demonstrated that prosperity was real.

But that prosperity remained concentrated in elite hands while substantial portions of the population lived in poverty that would have been unacceptable in any genuinely equitable society. Indigenous peoples constituted twelve percent of the population but forty percent of extreme poverty. Rural provinces lacked services that urban areas took for granted. Working-class families in Panama City neighborhoods paid Miami-level prices on wages that

were a fraction of American standards. The pattern established when Spanish treasure first flowed across the isthmus—elite capturing value from geographic position while masses remained marginalized—persisted despite independence, despite canal control, despite democratic governance.

The final lesson from Panama is about the limits of nationalism and formal sovereignty. Torrijos had negotiated treaties that transferred the canal. Panamanian operators had proven they could run it as well as Americans. The canal handover ceremony in 1999 had been a moment of genuine national pride and achievement. But Trump's casual threats in 2024 to seize it back demonstrated that sovereignty remained conditional on American acquiescence. The Neutrality Treaty explicitly preserved American intervention rights. The dollarized economy meant complete integration into American financial systems. The elite's wealth depended on American tolerance. Panama was independent in form but subordinate in function, with the degree of subordination depending on how much the great powers competed for control.

Geography had made Panama strategically valuable in 1501 when Spanish explorers recognized that the narrowest point between oceans was fifty miles. That same geography made Panama strategically valuable in 2025 when fourteen thousand ships annually transited the canal. Between those dates, elite families had prospered by intermediating flows—of treasure, goods, capital, information—while ordinary Panamanians provided labor for wages that kept them poor. The pattern would continue because geography was unchangeable and because elite power had proven adaptable across every transformation Panama had experienced. Sovereignty might increase marginally, prosperity might grow, democratic forms might strengthen. But the fundamental structure of elite intermediation serving external hegemons while excluding domestic masses would persist as long as geography remained destiny and elite remained constant.

END OF PANAMA CASE STUDY

PANAMA CASE STUDY: COMPREHENSIVE THEMATIC BIBLIOGRAPHY

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END OF PANAMA CASE STUDY

Framework elements comprehensively covered:

- Foundation conditions and geographic determinism
- Labor systems and class formation
- Capital control and elite wealth concentration
- Legal and institutional frameworks
- Resistance suppression and political exclusion
- Wealth extraction mechanisms
- Information control and narrative construction

- Elite coordination and network analysis
- Comparative assessment and theoretical validation

Pattern demonstrated: Elite power through strategic intermediation persists across five regime types (Spanish colonial, Colombian provincial, American hegemony, military dictatorship, electoral democracy). Sovereignty remains conditional on great power acquiescence. Service economy generates extreme inequality despite national prosperity. Small states controlling strategic assets cannot achieve genuine independence when superpowers compete for control.

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